

12 31.3

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

CONTENTS

Great Britain's Problem

France and Germany

Is the Five Years Plan a Menace?

Economic Safeguards in India

President Hoover at Mid-Term

China

India after the Conference

Great Britain:

*The Position of Parties—The Budget and the Land
Tax—General Matters*

Ireland: Events in the Free State

Canada:

Aviation as an Imperial Link—Federal Politics

Australia:

*Men and Measures at Canberra—Politics and Finance—
The Problems of the Northern Territory*

South Africa:

The Session—The Budget—The Japanese Agreement

New Zealand:

*The Outlook—The New Economic Policy of Mr. Forbes
—The Emergency Session—Unemployment*

JUNE

MCMXXXI

Price 5/-

NUMBER 83

GREAT BRITAIN'S PROBLEM

THERE is a strange fascination in the attempt to analyse the recent economic story of the world and of our own country, to segregate cause and effect, to identify the origin of present troubles, finally perhaps to forecast the future and the conditions of recovery. It is the fascination which always surrounds the mysterious. Few who have tried to unravel this particular mystery can have escaped the feeling that they are experiencing the emotions of Scotland Yard in the face of an unsolved and apparently insoluble crime. The crisis which now afflicts the economic life of the world is unique in its intensity, in its universality, in the novelty of many of its features. The professional economists disagree profoundly both as to diagnosis and treatment, so much so, in fact, that to the layman who follows their public controversies they must often seem to be speaking in strange tongues. The wisdom of the most experienced practical man of business tells him not that there is an overwhelming case for doing this or that, but that there is little obviously firm ground for him to tread. Almost the only lesson of a lifetime applicable to-day is caution—a reluctance to form hasty judgments, an honest distrust of panaceas, an open mind.

It is a natural consequence of this baffling complexity of our economic problems that we look in vain for any clear understanding of the situation by the nation at large or for any decisive guidance by its leaders. Mistaking perplexity for indifference and hesitancy for lack of courage,

Great Britain's Problem

some critics have leapt to the conclusion that decadence is creeping over us. We are accused, at times we accuse ourselves, of having become a nation of lotus-eaters. It is the conviction of **THE ROUND TABLE** that no such conclusion is warranted by the facts. As this article will seek to show, Great Britain has formidable problems to solve, problems of organization, of adaptation, of readjustment different from and in some respects more refractory than those which confront the world as a whole. An unkind Fate has decreed that this task shall fall in a period of peculiar political futility. The three-party system has meant unstable government, the divorce of power from responsibility, compromise instead of action. But any theory of decadence, within fifteen years of the immense national effort of the war, might be expected to be its own refutation. We are still a vigorous and a virile people, rich in experience and in the courage born of a long business tradition. There is no reason to doubt either the will of the nation to survive or its readiness to make whatever effort or accept whatever sacrifices may be needed, so soon as the nature of the effort and of the sacrifices is made clear to it. The object of this article will be attained to the extent to which it contributes to a wider realization both of what is clear and of what is obscure and difficult in our national problem.

I. THE WORLD CRISIS

IN the present economic situation of Great Britain there are two components, the problems and disabilities which it shares with the rest of the world and those which are peculiar to itself. In terms of unemployment statistics, there is the basic million for which the outside world has little or no responsibility and the additional million and a half with which the general "economic blizzard" has overwhelmed us. In terms of the budget, there is the

The World Crisis

problem of finding the means, even in a period of relative prosperity, to maintain and develop our elaborate social services, while redeeming debt and lightening the burden of taxation, and the quite different problem of how to make ends meet at all when unemployment relief is costing £100 million a year and bad trade has brought a shrinking revenue. In terms of the sterling exchange, the doubt whether our surplus available for foreign investment is adequate for the retention of our position as the leading creditor nation and for the development of our Empire has become a fear whether on balance we can show any surplus ; for that is the effect of an increasing gap between our imports and our exports coinciding with a diminished return from our foreign investments and from receipts such as shipping freights which are dependent on the volume of world trade. By any of these standards the importance of the world disturbance as a factor in our present troubles is seen to be not easily exaggerated. Restore to the world the same industrial activity and the same profitable interchange of goods as it was experiencing only two years ago, and you will in the process have gone far towards a solution of the most pressing problems of our national economy in Great Britain.

If this view is correct, it is pertinent to attempt some analysis, however brief, of what has happened to the world in the last two years and to search for any indication whether the ground lost is likely to be recovered in a reasonably near future. We are concerned here more with facts than with theories and this is perhaps fortunate, since the facts, taken broadly, are not in dispute, whereas the theories which seek to account for them are numerous and divergent.

Our first observed fact is a cataclysmic fall in general world prices, initiated by a break in the prices of raw materials and foodstuffs. The statistical position of many commodities was unsatisfactory for some time before the break in 1929 and it is probable that the discrepancy

Great Britain's Problem

between supply and demand was in many instances obscured by control schemes of one kind or another. Very few of the chief raw materials enjoyed free conditions of production and marketing in 1929. The immediate consequence of the fall in commodity prices was a severe restriction of the purchasing power of all primary producers. Australia, New Zealand, Argentina and Brazil amongst such producers illustrate, each in its own way, the commercial, monetary and exchange difficulties, and the consequent political problems, which spring from the catastrophe of prices.

The next fact is the violent interruption in the unparalleled prosperity of the United States. It is perhaps still too early for the world to form any accurate and comprehensive judgment of the economic life of America in the last ten years. Some day we may be able to distinguish with confidence between natural progress and inflation, between development normal in American conditions—in a closed territory, that is, with 120 million inhabitants, endowed with all the resources of modern technique, with high standards of earnings and productivity—and expansion beyond all limits of prudence. We may even come to appreciate the real significance of Wall Street speculation. For the moment the only firm ground is the indubitable fact that the whole delicate structure of American business is dislocated. The United States is entirely preoccupied with her own problems and no one to-day can feel any assurance that their full extent has yet been revealed. For two years foreign lending by America has for all practical purposes ceased and the effect on all countries which are dependent on foreign borrowing for the development of their capital resources has been incalculable.

From the economic confusion of America to the political chaos of the great markets of Asia is an easy transition. With anarchy in China and its disastrous economic consequences we have for long been familiar. Our own trade has suffered even more from the peculiar manifestations of

The World Crisis

political unrest in the Indian Empire. Whatever may be the political results of civil disobedience and the boycott, the economic loss to India and to every nation trading with India is not open to question.

The effect of the phenomena here so summarily described has been cumulative and can be seen in the reduced turnover of world trade. The following table* shows the percentage decline in the value of imports and exports in 1930 as compared with 1929. In the case of Great Britain, and probably in that of many other countries, there has been a decline not merely in values, but in volume; and even where volume has been maintained, a reduction of turnover with its corollaries of diminished profits and commissions must have far-reaching effects.

	Imports	Exports of Domestic Produce
United States	30·4	26·7
Germany	22·7	10·7
United Kingdom	13·8	21·8
Italy	19·9	20·4
France	10·1	14·6
Holland	12·1	13·6
Belgium	12·7	17·4
Total for all countries	18·9	19·9

In every industrial country unemployment has assumed formidable proportions. Our own total of 2½ million unemployed compares with estimates of 7 million in the United States and 3½ million in Germany. Reduced production and lower prices have meant unprofitable production. According to the compilations of the *Economist*,† an analysis of over 500 British companies which issued reports in the last quarter of 1930 showed a decline in profits of 18 per cent. Similar calculations‡ for the United States, where profits in previous years had been very much

* See Board of Trade Journal, March 5, 1931.

† *The Economist*, January 17, 1931.

‡ *The Times*, April 7, 1931.

Great Britain's Problem

higher, showed that the earnings of 171 railroads fell by 30·6 per cent. and those of 860 industrial companies by 41·6 per cent. in comparison with 1929. Shrinkage of trade, unemployment and loss of profits have caused budget deficits and shaken credit throughout the world, and all these ills can be related to a world-wide disequilibrium between the prices at which goods can be sold and the prices at which they can be produced.

If equilibrium is to be restored—and until it is restored the world as a whole will rest under the shadow of depression—either world prices must rise again or world costs fall or both these things must happen. That the present level of prices will be permanent is improbable, for the prices of many commodities have fallen so far that even the substantial reduction of costs which is often practicable can scarcely be sufficient to make production profitable. A rapid return to the price level of 1929 is equally improbable. Any rise in prices pre-supposes the first faint indications of a revival of confidence and it is unlikely that without that revival any human action can set on foot an upward movement. Once the corner is turned and prices begin to rise it is probably true that effective and continuous co-operation between the central banks of the world in the use of gold reserves would accelerate the rise and indeed carry it to almost any desired limit. But co-operation in this sense has not yet been found practicable, and political and economic jealousies still stand in its way. A national policy which depended on such co-operation could only be a gamble, and for the time being the opportunity for deliberate control has not occurred. Prices remain constant at their low levels or even tend to decline further, and the world as a whole has begun the painful readjustment of its costs both of primary and of industrial production. In Germany, in Italy, in the other industrial countries of Europe wages and salaries have already been reduced; in Australia, New Zealand and South America the same tendency has proved irresist-

Our Special Difficulties

ible; even in the United States it has begun to operate. Moreover, adversity at once directs attention to the possibility of more economical methods of production and a revision of industrial technique, and there are many signs that modern conditions may at any time facilitate, and indeed make almost inevitable, an expansion of productive capacity beyond the elastic limits of the demand.

It follows that all present indications point to a protracted process of readjustment by which equilibrium between world costs and world prices will be attained at some point between the present levels and those of 1929. If this view is correct, it is necessary to consider its implications for the national economy of Great Britain, having regard to the influence on our economic system not merely of the world crisis but of those problems peculiar to ourselves.

II. OUR SPECIAL DIFFICULTIES

THREE are certain essential features of our present problems in this country which differentiate us from the rest of the world. The first is the fact that we are exposed to the consequences of the world upheaval after ten years during which we have supported an unemployed population of never less than a million. This does not mean that for ten years before the crisis we stood still. The years from 1924 to 1929 were a period of considerable industrial activity and development even in Great Britain. The number of insured workers employed rose during that period from 9½ to 10½ millions, and the output of labour per worker also increased. As the following table* will show, important changes were taking place in industry and in the distribution of labour between different forms of employment.

* *Ministry of Labour Gazette*, November 1930.

Great Britain's Problem

Estimated Numbers of Insured Workers nominally attached to Various Industries.

(Figures in Thousands.)

		Change since July 1923		
		July 1930	Increase Per cent.	Decrease Per cent.
Distributive trades	..	1,764	43	—
Building	..	832	22	—
Public works contracting	..	186	52	—
Silk and artificial silk	..	78	115	—
Electrical cables, wire, lamps, and engineering	..	192	45	—
Motor vehicles, cycles and aircraft	..	247	30	—
Tramway and omnibus services	..	163	55	—
Coal mining	..	1,069	—	11
Other mining	..	32	—	28
Shipbuilding and repairing	..	205	—	21
Steel and iron works	..	203	—	15
Woollen and worsted	..	240	—	7
General engineering	..	592	—	8

The persistence over a long period of an unemployment figure of one million or more meant rather that our post-war efforts at readjustment to a changing world were for whatever reasons only partially successful, and that our financial and economic position had been subject to a protracted strain.

The second feature of our special problem is that our economic system is built round our export industries. By the export of goods and by receipts of interest and remuneration for financial and shipping services we have paid for our immense imports of food and raw materials and manufactured goods and have had a surplus of capital for export. For no other nation have exports the same significance. Our staple export industries have for years past been subject to increasing competition. Not only has economic nationalism enjoyed an irresistible and world-wide vogue, but many of our competitors have been assisted by the repudiation of debt through the devaluation of their currencies to reduce their overhead charges and their other production

Our Special Difficulties

costs. To meet this situation we need the power of rapid adaptation of our resources to the new conditions in the world, alert commercial methods, the facility to remould the structure of any industry, mobility of labour, high productivity, elasticity in wage rates—in a word, the background which offers a constant incentive to enterprise and capital to substitute new forms of economic activity for the old.

In fact—and this is the third characteristic of our economy—our industrial life is marked by extreme rigidity. Our standard of wages and salaries is higher than that of almost any other European country, our wage level being in practice to a great extent maintained by the scale adopted for unemployment relief. Restriction of production by trade union action is still found in various forms. There is a great disparity between wages in sheltered and unsheltered trades, and a disproportionate increase in the wages of unskilled workers. The existence of the rent restrictions legislation and of a guaranteed subsistence income for the workless without the requirement of seeking work has made labour immobile and led to the creation in many of the older industrial districts of devastated areas in which a majority of the inhabitants threatens to become permanently unemployed. Overhead charges such as the service of loan capital, rates and taxes constitute a progressively increasing burden as prices fall, being to a great extent fixed in terms of sterling.

The operation of these factors is revealed by some of the more fundamental figures. Between 1924 and the end of 1930 wholesale prices* have fallen by 37 per cent. and retail prices† by 13 per cent., but money wages‡ by less than 2 per cent. In other words, there has been a substantial rise in real wages, and the purchasing power both of the wage- and salary-earning population and of the rentier

* *Statist* Index.

† Ministry of Labour Cost of Living Index.

‡ Professor Bowley's Index, London and Cambridge Economic Service.

Great Britain's Problem

has been augmented at the expense of that of the entrepreneur, and the demand for consumption goods and services of all kinds has increased, while the demand for capital goods has fallen off.

As between sheltered and unsheltered trades, and skilled and unskilled workers, the following figures* are instructive. They show the percentage increase in weekly wages for time workers between August 1914, and December 1930, with the exception of coal-mining, where the figure relates to average earnings per shift. Owing to the general reduction in working hours, the percentage increases in hourly rates are substantially greater, and the wages bill of industry has been further augmented by the general revision in favour of the worker of the arrangements for overtime, night-shift and Sunday work.

<i>Unsheltered Trades.</i>			<i>Sheltered Trades.</i>		
Coal-mining	..	44	Building Trades—		
Engineering—			Bricklayers	..	74
Fitters and turners	..	52	Painters..	..	94
Labourers	..	84	Labourers	..	95
Shipbuilding—			Unskilled Municipal		
Shipwrights	..	45	workers	..	96
Labourers	..	80	Tramways—		
			Drivers ..	..	94
			Conductors ..	..	106
			Railway Workers—		
			Higher-paid grades	..	100
			Lower-paid grades	..	130

The total payments of the British railway companies for wages and salaries were £47 million in 1913 and £114 million in 1929.† After protracted arbitration proceedings, the companies have recently obtained a revision which will reduce the total payments by about £4,750,000, still leaving them 132 per cent. above those of 1913.

It is natural that in these conditions our share of world

* *Ministry of Labour Gazette*, March, 1931.

† Evidence before the National Wages Board, *The Times*, January 20.

Our Special Difficulties

trade should show a steady decline year by year. From 12·94 per cent. in 1924 it fell to 10·86 per cent. in 1929*, though during the same period the other chief industrial countries of Europe, except France, all increased their proportion. The strain on the sterling exchange which a continuance of this tendency must exert is shown by the Board of Trade calculation that our net balance available for foreign investments, which was £181 million in 1913 and £138 million† in 1929, sank in 1930 to £39 million.

It is the inevitable consequence of these conditions that industry as a whole is working at a loss and that the basic trades can neither compete abroad nor resist the encroachment of foreign competition in the domestic market. It is a further consequence that the stability of our public finance, which has been a bulwark of our international credit, is now more seriously assailed than at any time in living memory. The financial accounts for 1930-31, when proper allowance is made for the fresh borrowing to meet the cost of unemployment, show that during the year the national debt was reduced by only £7 million. As this result is attained in spite of a high level of taxation on incomes and a scale of succession and estate duties, which in 1930 brought in over £80 million, it is clear that large sums which would otherwise have been available for capital purposes were used during the year for current expenditure. The Chancellor's budget estimates for 1931-32 are admittedly provisional. They are made to balance only by the assumption that revenue as a whole will be maintained and by the appropriation of a dollar reserve and of an income tax payment which cannot recur. They depend, in fact, on a problematic revival of trade for their reality. The full effects of the fall in the national income, which has been officially estimated‡ at £400 million (from

* Statistical Tables relating to British and Foreign Trade and Industry, Cmd. 3737.

† *Board of Trade Journal*, February 26.

‡ House of Commons Debates, March 30.

Great Britain's Problem

£4,000 to £3,600 million) and of unemployment expenditure equal to almost 3 per cent. of that total income, will only be felt in the budgets of 1932 and 1933.

III. THE REMEDIES

IT is unnecessary to dwell further on the details of this picture, in order to make it plain that we are faced with a national emergency. If that emergency inspired the same overwhelming sense of imminent danger as the outbreak of a great war, the nation would be welded into unity and the choice of a line of defence would settle itself. The action of economic forces is less direct and obvious and may undermine the life of a still vigorous people like some slow poison in the human body. On no other view is it possible to account for such proposals as those recently made by the General Council of the Trade Union Congress to the Commission on Unemployment Insurance. The General Council advocated a substantial increase in the rate of unemployment allowances, the transfer of the whole burden from the insurance fund to the State and the imposition of a special income-tax to meet the cost. Their spokesman showed no interest in the problem of how the volume of unemployment could be reduced, and expressly disclaimed any responsibility for the finance of his proposals. The first was for the employer and the capitalist system, the second for the Treasury. The General Council, though perhaps less representative than formerly of the workers in industry, is a body of average patriotic citizens, and its plan is mentioned here only to illustrate the remoteness from reality of some sections of opinion.

What are the objects which any effective remedy for our economic troubles must seek to attain? Most of the conditions of our life as a nation are determined for us by such facts as our geographical situation or our past develop-

The Remedies

ment. We are to-day predominantly an industrial people, importing most of our food and our raw materials. It is beyond our power to make any material permanent addition to the number of agricultural workers; on the contrary, farming tends to be profitable only as the human labour employed in it diminishes. We must, therefore, continue to receive and to pay for a great volume of imports, even if the entry of foreign manufactured goods were entirely prohibited. We are a great creditor nation, in receipt of an income of about £270 million from investments in all parts of the world and dependent in the last resort on that income for the maintenance of the sterling exchange. Like every creditor, we must be in a position to protect our investments when necessary by adding to them. We are an Imperial Power, with a moral responsibility for, and a privileged position in, the development of large areas of the world's hinterland. To retain that position and to stimulate our exports we have only the traditional method of lending abroad. Finally, we carry and finance more of the ocean-borne trade of the world than any other nation, and our revenue from those services is in the neighbourhood of £200 million in a normal year.

It is clear that there is little room for any violent change in the economic system by which we live. The problem is how, within these limits, we can restore prosperity, by what stimulus to industry and trade we can lessen the burden under which we are staggering of 2½ million non-producers. The most powerful single influence on our economy—the world depression—is not amenable to our control, acting alone, and there can be no reasonable doubt that until that depression is lifted, we can only hope for a limited success from any efforts of our own. But it is equally true that a world improvement cannot solve all our problems, and that without strenuous and united effort we may well be debarred from our proper share in a revival of general prosperity. On every ground, therefore, we must accept the world situation as an incentive rather

Great Britain's Problem

than a soporific, and bend all our energies as a nation to the execution of a national policy of readjustment.

It is unfortunately still true that general agreement as to the main lines of such a policy is not yet in sight. By many the desired stimulus has been sought in a vast programme of capital expenditure by the State. There is nothing new or heretical in the notion that public works create employment. The expenditure on naval armaments before the war undoubtedly had the effect of putting life and activity into our whole industrial machine, and of levelling up good times with bad. In recent years the vast sums spent on road construction and improvements have had a comparable result. But there are formidable objections to the view that a State programme of capital works is an adequate or a safe policy in present circumstances. With the exception of the proposals made by Lord Weir's Committee for railway electrification—proposals which merit and are now receiving close attention—no evidence has been given that remunerative large-scale projects exist which could be put into execution in the near future. The experience of recent years suggests that the State is most likely to spend money wastefully and on no coherent plan, with relatively little effect on unemployment, but with great and incalculable prejudice to future budgets. Indeed, it is open to doubt whether any advanced democratic system such as our own, with its multiplication of authorities, central and local, and its ineradicable tendency to delay and compromise, can ever in this field emulate the achievements of a Cæsar, a Napoleon or a Cromer.

In the judgment of *THE ROUND TABLE* the vital need of the situation is to restore the profit-earning capacity of our industries. Continued inability to earn profits is the death-knell of industrial efficiency. It cripples enterprise, it prevents modernisation, and it hampers every movement for the more rational grouping of industrial undertakings. Industry is losing money at the present time because our

The Remedies

costs are disproportionate both to the value of our products in the world market and to the costs of our competitors. Those competitors have in a less degree found their own positions untenable at the new level of world prices, and they have not hesitated to weight the scales still further against us. We cannot afford to be alone in the world in our reliance on a return to the old price level.

It is difficult to resist the conclusion that the simplest, most direct and most effective method of restoring the profit-earning capacity of industry is a comprehensive reduction and readjustment of wages and salaries throughout industry, commerce and the public services. By that method we can reduce costs, while preserving a balanced budget and exchange parity, those fundamental requirements of our economic position in the world. It may well be found that any such measure will necessitate a corresponding reduction in the income fixed in terms of sterling received by the rentier—either through an extension of the present system of discrimination in income-tax assessment against unearned income or by some better method, if there is one, any revenue so derived being applied to debt redemption. The argument is often heard that a general lowering of our so-called "standard of living" must reduce purchasing power and so create unemployment. If that were true, the converse would be equally true and an unlimited increase in all wages and salaries would become the dictate of wisdom. In fact, the standard of living, regarded as something existing *in vacuo*, is a meaningless conception. As this article has attempted to show, the conditions of our economic life are to a great extent imposed on us from without: that we should be competitive in our own market and abroad is in the long run essential to our existence. Our prosperity depends in the last resort on productivity and on the profitable exchange of goods, and every section of the nation stands to gain in the end by an immediate sacrifice.

A sporadic and inadequate reduction of wages and salaries

Great Britain's Problem

has already begun, and with trade in the depths will inevitably continue. It would be idle to expect that the furtherance of this movement should arouse the enthusiasm of the masses or excite the ambitions of political aspirants. The practical probability is that when next a majority is found in Parliament and the country for any economic policy it will be for an experiment in Protection. For that reason it is desirable to examine to what extent Protection is an alternative to a plain reduction in labour costs.

There is no doubt that for the average man Protection has lost many of its terrors. He recognises that Free Trade theory presupposed a wide degree of elasticity in our internal economic system, whereas since the war that system has been the most rigid in the world. The theory demanded also that no obstacle should be placed in the way of movements in prices as a result of international movements of gold, whereas in recent years gold has been allowed no such freedom of action. Again, the average man sees the protective tariffs of other nations not relaxed but strengthened and his own power of bargaining made illusory. He has had some acquaintance with protective duties in recent years and has observed little evidence of inconvenience or exploitation. His view that the replacement of foreign manufactured goods by products of British industry must tend to relieve unemployment is an instinctive belief rather than a reasoned conviction. For if he buys a British motor-car, he knows exactly what has happened: he has given work to a number of his fellow-countrymen. If the car is a foreign car, what has happened is at the best obscure. But, if he is wise—and in these matters the average man is usually wise—he is aware of the risks and disturbance attendant on any change in economic policy and is free from any illusion that Protection will open the door to the millennium.

The problems which the elector seems likely to decide on broad grounds such as these cannot be disposed of in half a page. Protection is not like "DORA," a regime which

The Remedies

can be adopted in an emergency and abandoned when that emergency is past. It establishes a certain distribution of labour and capital as between industries, and a disturbance of that new equilibrium would create problems no less formidable than those which Protection had been intended to solve. Indeed, without some assurance of permanence, industry has no inducement to remould its organisation. Moreover, the stimulus of Protection must be unequal as between industries producing primarily for the home market and those producing largely for export. It is probable that in certain industries Protection would tend to reduce costs by permitting a better planning of production, and by removing some of the formidable financial obstacles to rationalisation. It is certain that in others ability to export at competitive prices would tend to be reduced. No means exist of computing in advance the comparative effect over the whole range of industry of an increased volume of domestic trade on the one hand, and of diminished exports on the other, nor is it possible to calculate what would be the result of Protection, general or partial, on our essential invisible exports, such as shipping freights, banking and insurance commissions. These are amongst the unknowns of a tariff.

In conclusion, the view of THE ROUND TABLE on these perplexing issues may be briefly resumed in some such terms as these. We cannot hope to regain prosperity while the economic life of the world is languishing. At the best we can only improve our relative position, which has deteriorated, and must continue to deteriorate in the absence of vigorous and united effort on our part. Our objective must be such a readjustment of the relation between costs and prices as will restore to industry the power, which for the time being it has lost, of earning profits. That objective can be directly attained by a reduction in costs. It seems likely that it will in practice be attained partly by a fall in wages and salaries and partly by the acceptance of Protection, with its probable indirect

Great Britain's Problem

consequences in the internal price level. The old controversy as to Free Trade and Protection has no longer any but an academic interest, and while the benefits to be derived from a change in fiscal policy are certainly limited and the disadvantages of such a change to some extent unknown, there is reason to believe that in the condition of rigidity which afflicts us, the stimulus which a tariff, rationally devised for our purposes, would inject into our economic life would justify its adoption. If as a nation we decide that we can sacrifice neither Free Trade nor our standard of living, our ineluctable fate is to drift into inflation, open or disguised, and to abandon, at any rate temporarily, our position as a leading organiser of world finance.

FRANCE AND GERMANY

ON November 7, 1918, Kurt Eisner, President of the short-lived Bavarian Republic, proclaimed at a mass demonstration in Munich that "the German people knows itself to be one with all the peoples of Europe in the will to safeguard the future of the world by a universal alliance of law and liberty, and looks forward with confidence to the fulfilment of the world peace proclaimed by President Wilson." In this statement Eisner probably expressed the view of the great majority of Germans at that time. It was an opinion in no sense inspired by opportunism. Twelve years later a Liberal of the standing of Professor Mendelssohn-Bartholdy is found seriously discussing the practicability of Germany seceding from the League of Nations.

How has this change come about? What does it portend? To what extent, if any, does the new attitude indicate that contemporary prophecies that the Versailles Treaty spelt the collapse of European civilisation were true? The future alone can answer that question. We are, however, approaching a parting of the ways. Next February the Disarmament Conference is to be held at Geneva. Its result can hardly be a negative one. It will either leave things better or worse. A detailed examination of the problems which will confront the conference will be made in a future issue. The object of this article is preliminary study, to discuss the factors which underlie Franco-German relations, for those relations are at the root of the disarmament question.

7

France and Germany

I. THE GERMAN STANDPOINT

THE more closely one examines the differences between France and Germany, the clearer it is that the chief obstacles to their solution are psychological. Both countries seem to be falling more and more a prey to extreme nationalism. But nationalism is itself a quality which varies with the national character. The French nation has for centuries been given to what might almost be described as narcissism. The French are, generally speaking, an untravelled people with an insular mentality, indifferent to foreign customs and ideas, and suspicious of them when they are thrust upon them. French nationalism, however, before the war, was a comparatively harmless foible, dangerous only when roused by some suspicion of danger to the soil of France, a defensive weapon. The Germans are different. They have no such uniform self-centred life. They are more cosmopolitan in taste, and war brought them the highest degree of unity which they have yet attained. German nationalism, if ever it should become permanently grafted on to the national character, would be of an aggressive type. It is a forced growth. This does not, of course, mean that the German has no love for the Fatherland. The exact contrary is obviously the case. But he loves his Fatherland, so to speak, in a more local sense. When a South German wants a town holiday, he is just as likely to choose Paris as Berlin. Mutual understanding is easier between Frenchmen and Germans than it is between either of them and ourselves—perhaps it would be truer to say that they are quicker to accept each other's differences than ours. Their national characters are, indeed, so unlike as to be almost complementary to one another. The German is essentially social. He works best as part of a machine under control. The Frenchman, on the other hand, is an incorrigible

The German Standpoint

individualist. There is truth in the saying that the German is a peaceful militarist and the Frenchman a warlike pacifist.

Let us take the events of the last twelve years as the German sees them. Between the Armistice and the delivery of the peace terms everything was in confusion, but one fact stands out. The German people were ready to co-operate with the other nations in establishing a new international order. Defeat, it was recognised, was bound to leave painful material consequences. For humiliation, however, they were not prepared. The old order had been expelled ; Wilson had made it clear that the Allies were not waging war against the German people ; the Armistice was accepted on the basis of the Fourteen Points, "open covenants openly arrived at" promised a negotiated peace and the fourteenth point a league of nations—such as Erzberger had already written about. Hate is the concern of the rear, fighting of the front, and Germany, with the world in arms against her, had had a wide choice for hate. On the side of the Allies it was concentrated upon herself. She chose England. While the war lasted there was little or no hate for France—that was left to Clemenceau and Tardieu, and later to Poincaré, to draw upon their country, and when it came its intensity was only equalled by their own lack of vision.

In 1918 Germany took the word of the Allies. Then, with the force of a stinging blow, came the terms of the "dictated peace." The Germans were thrown back upon themselves, and all interest in the League, which eventually emerged without their participation, went. Nor was later contact with it of a kind to revive enthusiasm. It seemed indifferent to the "scandal" of the plebiscite in Eupen and Malmédy. It took its part in the severance of Upper Silesia. The Assembly could not discuss reparations because of French objections ; and finally the League did nothing to prevent the invasion of the Ruhr. Everything helped to deepen the conviction that it was merely

France and Germany

an instrument for the enforcement of the Treaty of Versailles.

The Weimar Constitution came into force on August 14, 1919, and the Treaty followed close on its heels (on January 10 of the next year). It was then in disillusionment and despair that the German people started their new form of government, the exact opposite of the semi-paternal rule to which they were accustomed, and with the yoke of a universally detested treaty upon their necks. Then came the Kapp Putsch, followed by the occupation of Frankfurt and Darmstadt by the French, and Communist risings in Saxony and the Ruhr. The Upper Silesian plebiscite, the proclamation of the temporary state of siege in the Saar, the disarmament of Germany under the supervision of Allied officials, the invasion of the Ruhr, the commencement of the incredible separatist episode in the Rhineland and the Palatinate, and, finally, the inflation of the currency, belong to this period. In all these events the villain of the piece, in German eyes, was France.

Then, in August, 1923, Stresemann became Chancellor, and a policy of fulfilment was substituted for latent obstruction. But it was not until after Locarno and the evacuation of the first zone of the occupied territory that he was able to overcome nationalist opposition sufficiently to apply for admission to the League. The initial rebuff of March, 1926, further diminished its prestige in Germany and strengthened the opposition to joining it. It took all the Chancellor's political courage to apply a second time. Germany was admitted in September of the same year.

Stresemann had two main objects, the evacuation of the Rhineland and some degree of general disarmament in accordance with Article 8 of the Covenant. Convinced that these aims could only be attained and protection secured for German minorities by co-operation at Geneva, he directed all his energies to this end. He never succeeded in rousing any enthusiasm for his policy at home, but years of co-operation between himself and Briand went far

The German Standpoint

towards allaying the hostility to France which the Poincaré policy had aroused. His crowning achievement was to get a date fixed for the complete evacuation of the Rhineland. It took place on June 30, 1930, five years before the treaty date, and nine months after his own death. The concession had been long in coming, and when it did come it seemed to be so grudgingly made and so obviously under British pressure that there were complaints in France that Briand had failed to gain the kudos for her to which the event entitled her. The haggling with the sick Stresemann at the first Hague Conference marks the point at which Briand's prestige began to wane in Germany, and the weakness of his objections to fixing a date for the evacuation did nothing to arrest the decline.

Stresemann died, then, without seeing the fruits of his labours, and with his second aim as far from realisation as ever. No sooner, indeed, had Germany taken her seat at Geneva than M. Paul Boncour made it plain that the *status quo* in armaments must be upheld, and this has been the attitude throughout. It found definite expression in Article 53 of the Preparatory Commission's Draft Convention, in which the acceptance by France of a disarmament convention was made conditional upon Germany's renewing her obligations under the Versailles Treaty, regardless of what the other countries had done. This deliberate flouting, twelve years after the Armistice, of the principle of equality, which had become an obsession for Germany, was the reason for her representative's refusal to accept the draft Convention. His warning that no treaty based on such conditions would be acceptable was endorsed by Berlin.

If (said Count Bernstorff at the last meeting of the Preparatory Commission) the majority of our Commission only realised the paucity of the results achieved during the last five years, it would not place this factitious piece of work on the same footing as previous conventions. . . It is possible that there may be among us delegations who imagine that my Government could be asked to give its signature to a Convention which, instead of

France and Germany

leading to genuine disarmament, would only serve to draw a veil over the real state of land armaments throughout the world, or, what would be worse, would make it possible to increase these armaments, and would at the same time force me once again to give Germany's signature to the disarmament clauses of the Treaty of Versailles. I beg of you, gentlemen, not to consider this possibility.

Thus, by the end of 1930, Germany had lost her illusions, but she had also failed to find her own soul. Torn with internal dissension and distracted by the difficulties of the constitution which had led to the establishment of a semi-dictatorship to prevent worse things, there was nevertheless still a considerable amount of agreement on foreign policy. Thus we find the League in general disfavour and under renewed suspicion of being a sort of Anglo-French joint stock company. France remains the villain, and Briand, hitherto the well-meaning, if somewhat weak, opponent of Poincarism, has ceased to personify hope. Three main grievances stand out—the war guilt question, the eastern frontier, and reparations. As regards the first, the German people, like most of the other ex-combatants, were, in 1914, convinced that they were fighting in "self-defence," and that the mobilisation of Russia and France, which preceded their own, had forced their Government into the declaration of war which gave rise to the accusation of "aggression." Article 231, which affirmed the sole responsibility of Germany and her allies for the war, was passionately denounced by Count Brockdorff-Rantzau at Versailles, and is probably still, in spite of unofficial repudiations from abroad, the subject on which Germans can most easily be roused. The inclusion of the subject in the Hugenburg referendum on the Young Plan in 1929, in spite of the Government's reminder that the charge has never been officially accepted, may be considered responsible for the large number of signatures. Certainly the denunciation of Germany as a "nation of pariahs" supplies an important part of the stock-in-trade of National-Socialist propaganda. As for

The German Standpoint

the second point, the Germans claim that, although forty years after the Treaty of Frankfurt "revenge" feeling was still strong in France, Germany, under the Stresemann policy, finally renounced her claim to Alsace-Lorraine only five years after the Treaty of Versailles. This more than anything else makes the Germans sure that the violent opposition of France to any idea of treaty revision must be due solely to a determination to keep them permanently down—to put her own hegemony beyond challenge—for they no longer have any territorial demands as far as she is concerned. As regards the eastern frontier, Germany, it is true, has only agreed not to try to change it by force, but the overwhelming majority of the people would insist upon that change being effected by peaceful means. Internally this eastern grievance is incessantly exploited, not only by people who are against remaining in the League and who point to its failure to protect German minorities, but also by the advocates of increased armaments. The excuse for the construction of "pocket battleships" is the necessity for protecting the "island of East Prussia," and in the Foreign Affairs Commission the question is often asked whether the Government's resources are sufficient to defend it against attempts at annexation. Poland has done nothing to mitigate this particular fear. Polish newspapers and periodicals are little read west of Berlin, so the world knows nothing of the discussions about the "necessity" for Polish expansion which from time to time excite the German nationalists. The Poles, of course, have their own grievances against the Germans, "but that is another story."

People differ about the part which reparations have played in arousing German discontent, but there is no doubt that it is a contributory factor. When a relatively prosperous nation like France complains bitterly over the necessity of paying her reduced war debts, it is not surprising that the Germans, whose economic position is at present so much more difficult, should resent seeing

France and Germany

huge sums go abroad every year. In the early years the question, "What can Germany pay," was always coming up, and this helped to bring home to the Germans the force of the hatred felt against them. The French refusal to have the debt fixed completed their conviction that the main object of reparations was to keep Germany in permanent subjection, if not to ruin her, and bitter comparisons were drawn between their own "leniency" in 1871 and the attitude of the Allies. Since 1924, however, when the Dawes scheme was introduced, controversy has been transferred to other fields, and, although the Young Plan is usually referred to as "monstrous and impossible," Herr Hugenburg failed to stampede the country against it in 1929, only some 14 per cent. of the electorate supporting his referendum. The Nazi propaganda, moreover, which pretends that the economic crisis is chiefly due to the payment of "war tribute," seems to have carried little conviction, judging by the calm way in which Dr. Brüning's repeated assurances that the crisis is primarily due to world influences and to the character of the German economic system have been taken. The Chancellor has also pointed out that there is a growing recognition abroad that reparations are permanently disturbing the economy of the whole world, and he appealed to his own people to set their house in order, so as to prepare the way for a general solution. It is precisely because no such "general solution" is in sight that, even if it arouses little animosity, the reparations question is accentuating the present feeling of hopelessness.

Such briefly are the main causes of German discontent. The list no doubt includes old matters almost forgotten everywhere else, but during the last ten years circumstances have conspired to keep them alive for the Germans. They remain, for them, an enduring proof that the old régimes across the frontiers are still afflicting the new régime at home, and that the latter has shown itself incapable of resistance. Thus, when the Hugenburg press

The French Point of View

publishes pictures of the disarmed Michael surrounded by menacing guns, with the armament figures for every country carefully noted on their barrels, the appeal gets home to strained nerves and minds already prepared for it by propaganda. And the energetic young people, whom the universities and technical schools pour out every year in such numbers, find every trade and profession crowded at home, and no outlet abroad. Naturally they think that, for them at all events, the war is not yet over. Action is the keynote of the German temperament, and, whatever their intellects tell them, their hearts go out to the appeal for change at any cost. "Fulfilment," they are told, has led only to humiliation, and the existing system of "strangulation" which leaves no room for hope must be smashed.

II. THE FRENCH POINT OF VIEW

SO much for the German standpoint. The attitude of official France, both to Germany and the League, is probably better known to British readers than that of Germany. It may be summed up in the word "security" and may be put as follows. France has twice in fifty years been the innocent victim of aggression from the same quarter; she was the worst sufferer from the war, and the chief artisan of victory. Victory has given her the upper hand and she means to keep it, for she does not believe that security is possible without it. She had full information of the annexation schemes which Germany had prepared early in the war, and she approached the Peace Conference with no "sentimental" notions about a new international order. Germany must be dismembered and prevented from ever again becoming a threat. Her economic ruin should be limited only by the necessity of making her pay for the war. The bolshevisation of France's old ally Russia made it doubly necessary for her to transfer her traditional policy of alliance to the west,

France and Germany

and, since human civilisation had indisputably reached its highest level in France, it was to the interest of the whole world to keep her soil immune. Sacred egoism, no doubt, but held with a genuinely religious sincerity.

The Peace Conference, however, was destined to disillusion France as rudely as it did Germany, and, if during the war detestation of the Anglo-Saxon was the distinguishing mark of the latter, it now passed to France. It was bad enough to be pestered with the ridiculous Fourteen Points—"Fourteen!" said Clemenceau, "God Almighty only had ten." But it was even worse to find the British Prime Minister obstructing annexation, weakening the united front and even calling for inadmissible concessions to the enemy. Well might M. Tardieu write that those were atrocious days.

But worse was to come. France's reading of the Wilson proposal of a "general association of nations" was a perpetual league of Allied Powers to supervise and safeguard the execution of the Peace Treaties. Later, when the dismemberment of Germany rendered it possible to limit armaments elsewhere, this association might be supplied with an international force. Such was the form in which the peace vision presented itself to France, with herself supreme, and therefore secure, on the continent and the Anglo-Saxons preventing trouble elsewhere. The conception failed, as did the idea of an Anglo-American guarantee, and France, sadly out of love with her old allies, became a member of a League of Nations which meant little to her, a nebulous body devoid of teeth and quite valueless as a watchdog, to which the Germans had been impertinent enough to demand admission. Later, though there was no real change of heart or policy, thanks to M. Briand, interest in the League grew in France. But the failure of the United States Senate in 1920 to ratify the Guarantee Pact, and its subsequent refusal to adopt the Versailles Treaty, was a shock from which Paris has never entirely recovered; in one form or another the

The French Point of View

guarantee project is always in the mind of her politicians. Convinced, however, that for the moment progress was barred along that line, France in 1920 turned to other quarters for security. She first proceeded to "buttress the Covenant" with military alliances with Belgium and the States which owed their existence or accessions of territory to the Peace Treaties. But in 1922 she returned to the charge, and at Cannes M. Briand was on the point of obtaining a guarantee pact from Great Britain. But the scheme again fell through, and M. Poincaré resumed control. The basis of his policy may be summarised in his own words*:

On the morrow of the armistice each of the belligerents in a certain measure resumed its sacred egoism, of which one of them was proud and the promptings of which were more discreetly followed by the others. I am neither astonished nor scandalised at that. But what I fail to understand, what France does not understand, is why for more than three years, in the peace treaty as in later conventions, agreement among the allies is so frequently made at our expense. What good is it to recall now the long series of deceptions inflicted upon us, the concessions demanded of us in favour of Germany, the reductions successively imposed upon our claims, the opposition that we have met every time that we have urged recourse to guarantees and sanctions? It has gradually come to France that the right of having a foreign policy is almost denied to her.

The succeeding phases will be too fresh in the memory of the reader to require more than a brief reference. The League failed to solve the security problem. Both the Treaty of Mutual Assistance and the Geneva Protocol were rejected. Then came the Locarno Agreements, in which France finds little satisfaction, largely owing to their bilateral character, followed later by the Kellogg Pact, initiated by France and eagerly welcomed by Stresemann, and the signature by Germany, first among the great Powers, of the Optional Clause. But these events, too, in the eyes of France, provided no real security, and the increasing desire on the part of other nations to make

* See *Le Temps*, August 22, 1922

France and Germany

them the basis for a reduction of armaments was met by a blank negative on her part during the sessions of the Preparatory Commission. She has never believed in the disarmament of Germany. Reference is continually made, in books and elsewhere, to the probability of hidden arms, and still more to alleged arrangements for the rapid manufacture of weapons and munitions in neighbouring countries. In the absence of any proof which would enable Germany to be brought to book, attention has lately been concentrated more upon her "war potential" as a great industrialist nation, admirably adapted for the provision of whatever modern scientific warfare requires, with vital statistics all in her favour. There has been heart-burning, too, about the abolition of conscription in Germany (at Anglo-Saxon instigation), and reams have been written on the *Reichswehr* as an "officers' training corps," with a large reserve of men trained in patriotic organisations such as the *Stahlhelm*. Comparisons have been made between the recovery of Prussia after Jena and the adaptation of the German military machine to the restrictions of Versailles. General Desvignes in *La Farce du Désarmement* brackets point by point the work of Scharnhorst after 1806 with that of General von Seeckt to-day. The conclusion he comes to is, however, significant. Economic union alone, he believes, can save Europe from disaster, since security in the military sense is no longer possible for any nation.

If the bare performance of undertakings open to various interpretations is to be regarded as evasion (as Lord Cecil recently admitted in the House of Lords that it might be), then it may be asserted that Germany is evading Part V of the Versailles Treaty, just as the Allies are evading Article 8 of the Covenant. In Germany, as elsewhere, there are permanent officials whose minds sub-ordinate the future to the past. Their power is obviously limited, but they exercise it as far as they dare. The fact, however, remains, that, by common consent even of French military experts, Germany to-day is powerless to make war

Personal Relations

The steady progress made in the economic sphere during recent years almost tempts one to regard the dust and din of the political arena as a side-show kept up for the benefit of the press. Such a judgment would, however, be superficial, for the two spheres overlap, and if the post-war industrial world has contained men like Hugo Stinnes pursuing their ends with an almost lofty indifference to politics, it also numbers others such as Coty and Hugenberg, who use commercial success as a stepping-stone to the fulfilment of political ambitions, and whose influence upon their compatriots has not conducted to better international feeling. Then there are the occult machinations of heavy industry on both sides of the Rhine, accompanied by an increased chauvinism in part of the press. Nevertheless, although commercial relations to some extent reflect political feeling, infinitely more progress has been made between French and Germans industrially than between the two nations politically—some examples are given by M. Herriot in his book, *Europe*. In point of fact, there is now hardly an industry of importance in which joint action of some kind has not been arranged between French and German representatives. Since, however, the object of most of these arrangements has been to control markets, or to exclude third parties, and the effect on customs tariffs has been negligible, the movement can hardly be claimed as a necessarily progressive one in the international sense. It is only referred to here as an essential part of Franco-German relations.

III. PERSONAL RELATIONS

UP to this point we have dealt chiefly with the political relations between the two States. To what extent is this a guide to the feeling between the two peoples? No doubt German spokesmen have reflected the opinion of their people more closely than French spokesmen. The reason is obvious. Public opinion in every country

France and Germany

is normally comparatively little interested in international affairs, but defeat in war carries with it material consequences which force attention in that direction. The Germans are not necessarily better informed than other people in this respect, but circumstances have made them realise that foreign policy directly affects their own individual lives. When, therefore, a German Foreign Minister states that there are limits beyond which public opinion will not allow him to go, the phrase is more likely to be literally true than is usually admitted in diplomatic circles. The French undoubtedly stood behind their Government, at all events up to 1924. But latterly doubts have crept in, and Poincarism, felled by the *Cartel des Gauches*, has never completely regained its old aggressive qualities. Criticism has been slow in coming, but that is largely due to the "insularity" of the French, who take their ideas exclusively from the Paris press. Nevertheless, it is increasingly difficult to believe that the uniform intransigence of Paris really represents what French people think as a whole. That they are war-weary has long been admitted, but it is less widely known that "pacifism" is to be found even in its extreme form. To-day, almost anywhere in France, one may hear French policy and French public men, from the President downwards, denounced in terms such as elsewhere are rarely used outside Communist gatherings. The moribund condition of the old conservative peace societies is largely due to their "semi-official" character, and their place is being taken by new organisations, such as the *Ligue des Anciens Combattants Pacifistes* and the *Ligue Internationale des Combattants pour la Paix*, both recently formed by popular journalists of the Left. At a recent congress of one of the older and less radical ex-servicemen's organisations a resolution was passed in the following terms. The Congress,

considering that Article 231 of the Treaty of Versailles threw upon Germany the sole responsibility for the war of 1914; considering also that the treaty was drawn up without consultation of the ex-enemy

Personal Relations

nations ; gives a mandate to its delegates at the national congress to present to that congress a resolution inviting the C.I.A.M.A.C. to constitute an enquiry commission charged to examine and establish the responsibilities for the war of 1914.

Then there are recent issues of periodicals which rarely, if ever, pass beyond the frontiers of France, from which it would be easy to compile extracts which have a very different tone from those which are usually quoted in the foreign press. The following is taken from a monthly issued by and for French youth.

French public opinion exists deliberately inside a circle drawn by itself. It ignores all that does not touch it directly, unmindful of world interdependence. It does not envisage Europe as Europe but as an appendage to France and refuses to be informed of, much less convinced by, evidence to the contrary. A press lacking either independence or means, assists opinion in this auto-anæsthesia. Thus after the war France hypnotised herself by the two questions of security and reparations—with arguments of a disarming puerility. Germany was the *nation de proie* always lying in wait to commit a possible aggression, the nation which had invaded France “four times in a hundred years,” and against whom protection was the first necessity.*

The article goes on to demand revision of the treaties.

The arguments for treaty revision have indeed latterly found such vigorous expression in a section of the Paris press that the Allies of France have begun to take alarm, and the conservative papers, unable to ignore it, have responded vigorously. Support for the movement has, moreover, recently come from outside ; M. Vandervelde, in the Belgian Chamber, has demanded the abrogation of the Franco-Belgian military treaty of 1920.

But when all is said, the effects of this new attitude on the part of a growing section of the French people must not be exaggerated. The attitude would have to grow a great deal stronger even to capture the political machine of the parties of the Left before the elections in 1932, and the only question is whether it will find sufficient

* *Plans*, February 1931.

France and Germany

expression to oblige the existing Left groups to adopt a foreign policy of their own, instead of, as usual, feebly imitating the Right.

IV. RECENT TENDENCIES

THANKS then largely to obstinacy on the one side and to clumsiness on the other, the spirit of hope which followed the Locarno agreements has been almost frittered away. In France the political parties of the Right were always opposed to those treaties, whilst the Left considered them a poor substitute for the Geneva Protocol. But the consequences of this change of attitude are far too serious to be ignored. They can be seen in the violence of the comments which followed the Franco-Italian naval dispute and the proposal to form an Austro-German Customs Union. In the casual "sophisticated" newspaper reader the change takes a cynical form, a feeling that nothing has really been altered, that the short honeymoon of peace talk is over, and that his "instinct" was right all the time in supposing that, when Europe finally came up against reality, these new-fangled ideas would melt away. A sort of *fin de siècle* atmosphere exists, if one may use such an out-of-date expression, and the end is felt to be near. The *Frankfurter Zeitung* has hitherto been the strongest exponent in Germany of the "Stresemann policy." This gives a special significance to the following passage. Referring to the chauvinist speeches of M. Maginot and M. Doumergue which preceded the Comte de Brocqueville's speech in Brussels on April 29, the writer says* :

M. de Brocqueville dares to say to-day that Belgium, despite the solemn peace covenants of which she is a signatory, can no longer rely upon treaties. He wants Belgium to prepare for another war on the model of the World War, a war on the side of France and with British support. He still sees Germany only as an enemy and

* *Frankfurter Zeitung*, April 30, 1931.

Recent Tendencies

interprets Locarno simply as a Belgian-French-British alliance against Germany. . . . Either we must recognise that these days of the League and Arbitration agreements mean that the world has gone forward, or we must refuse to believe it. But if one does not believe it, then one cannot honestly accept the Peace Pact or Arbitration Treaties. That much must the German people declare plainly to the Belgians, when they allow a responsible statesman to speak in their name as M. de Brocqueville has spoken. And one word to the others also. The situation is terribly serious. In February of the coming year the great international Disarmament Conference will take place. This is providing an opportunity for all opponents of disarmament to rouse opinion against it and to set traps for the policy of reconciliation. The outlook for the Disarmament Conference has become so bad through such agitation that, unless there is some change in the meantime, we must almost certainly expect it to be a failure. And yet failure, as we Germans can best judge from our own internal situation, would probably mean the beginning of the development of a new world catastrophe. We know that the friends of disarmament are also active and perhaps especially so in France and Belgium, but up to the present their work has not succeeded in checking the sinister game of the armaments interests. It is high time that they gained the upper hand.

Prophecies that the Conference will fail are now common in Germany, and the pessimists predict, as a consequence, a Fascist dictatorship, withdrawal from the League and, later, a Communist reaction and permanent association with Russia. The Communist party has long been strong. It now numbers 76 deputies in the Reichstag, and the rank and file of the Nazis in the north have Communist tendencies. It is, however, only comparatively recently that the Russian experiment has begun to arouse widespread curiosity, a curiosity stimulated by such statements as those of Herr Sachsenberg, head of the Junkers Aktien Gesellschaft, a concern with large interests in Russia, who has expressed the conviction that the Five Years Plan will be largely successful. How a Communist régime could function in a highly industrialised country such as Germany is not explained by its advocates. But feeling in Germany to-day, as anti-Communists themselves point out, is predominantly anti-capitalist, and the country

France and Germany

is run on hybrid principles which are neither purely capitalist nor purely Socialist. This system has failed, and no recovery sufficient to allay the dissatisfaction of its victims can be expected unless relief, both material and psychological, comes from outside. The strength of the present pessimism is due to the fact that there is no prospect of either.

Official France, indeed, appears to have made up her mind that "concessions" must cease and that disarmament is unthinkable in the present state of Europe. She was profoundly hurt when no gratitude was shown for her evacuation of the Rhineland, and the subsequent Nazi raids on suspected ex-separatist agents aroused her indignation. The result of the German September elections, indeed, which gave the Nazis their 107 seats, almost created a panic. "Here," said the nationalists, "is what comes of Briand's policy of concession and weakness." They forgot Stresemann's repeated warnings that procrastination and a continuance of the crushing inequality in armaments, which has existed since the war, would have this very effect. But by February France had recovered sufficiently to authorise the banks to participate in a loan to Germany. The French share was only some £1,600,000, and the measure elicited little public comment, but it increased the better feeling in Germany which had followed the January meeting of the Council at Geneva, and was the more welcome in Berlin because there had been no such loan since before 1870. More, too, was needed in the way of long-term credits and, as the Banque de France had just stated that the time had come for France to lend more money abroad, it was felt that there was reason for hope. Then came the bombshell. The proposal to establish an Austro-German Customs Union was announced.

The Austro-German Proposal

V. THE AUSTRO-GERMAN PROPOSAL

THE first public intimation was a scare-line in a Paris evening paper. A German plot to bring about the *Anschluss* was announced. Three days later the preliminary convention was issued in Vienna, but by that time the French press was fairly aflame, and the fire continued to burn fiercely until the Spanish Revolution provided a distraction nearly a month later. No attempt can be made here to examine the merits of the proposal. This article is merely concerned with its effect on Franco-German relations. That the first reaction in France should have been violent can surprise no one who knows French psychology. A customs union, it was felt, would certainly lead to political union, just as the old *Zollverein* had preceded the establishment of the German Empire. The *Anschluss* has always been France's bugbear. M. Briand seemed to feel the proposal as a personal matter, and the fact that the occasion was seized by his enemies on the Right to denounce not only his whole policy, including the United States of Europe suggestion, but also his candidature for the Presidency, was not calculated to make him more sympathetic. Official France immediately decided that the union would constitute a breach of the treaty obligations of Austria, a view which was vehemently supported by papers like the *Temps*, and for days the scheme was stigmatised as another example of German bad faith. Then President Doumergue, already in the last days of his official term, went so far as to assert that Germany's proposal would confirm France in her belief that, unless she obtained more security, disarmament would, for her, remain impossible. At the same time, the Committee which was drafting the Franco-Italian naval agreement had to suspend its work on account of difficulties raised by France.

The attitude of France to the Austro-German proposal is entirely consistent with her attitude since 1919. Here and there a voice has been raised to suggest that it was simply the inevitable happening, or that the blame was

France and Germany

M. Briand's, for not following up his idea of European union ; but the nationalists to a man subscribed to the view bluntly expressed by M. Charles Maurras, "*l'Europe restera désunie ou sera allemande.*" The same men who conducted the war and made the peace, men to whom France is everything, and the interdependence of the world a post-war phrase, are still in power. The eyes of these men are turned back. They see the path strewn with French concessions and the ruin of all their hopes of security through domination. To them the proposed Customs Union has only one significance—it amounts to a German Declaration of Independence. The fatal hour so often predicted is going to strike. The stricken enemy, raised up by Allied weakness, will once again confront a disunited France.

The French are right in thinking that the Customs Union represents a new attitude on the part of Germany towards their country. To what extent it is a conscious one it is impossible to say, but the fact remains that Germany can no longer afford to wait for the evolution of ideas to take their normal sluggish course. Economically and psychologically, her internal situation forbids delay, and external passivity must be brought to an end. If the risks involved are great, the risks of inaction are greater still. During the last three years there have been, on an average, 44 suicides a day in Germany, and the average earnings of the salaried classes are £8 per month. If figures such as these afford a glimpse into the welter of tragedy which lies behind them, they are an even more terrible warning of the demoralisation which threatens a highly civilised people. It is not military supremacy for which Germany is striving—in that sense *Mitteleuropa* is a mere bogey of French reactionaries, and in non-nationalist circles it is increasingly recognised that of all the combatant nations Germany can most surely be said to have learnt the cruder lessons of war's futility. Nor at present does she aim even at economic leadership, though that is doubtless at the back of the minds of her rulers. What matters to her

The Austro-German Proposal

at the moment—and it is urgent—is a life-line to draw her back from the precipice on the edge of which she stands. The German Government is faced by a people without hope, with nerves on edge, and minds no longer normal. The time when promises worked miracles has gone. There must be some clear sign of recovery and reinstatement. Given that, Germany will recover, she may indeed set a pace in Europe which will change its face and result in a new world. This temporarily suppressed urge finds frequent expression in the writings of young Germans.

The moment of history (says one of them) at which we find ourselves arrived, this adventurous commencement of a completely new era, all this renders it out of the question that we should remain in that phase of development which France and England exemplify. It is our destiny to skip over this phase, which no amount of patchwork has enabled us to imitate adequately, into something completely and disturbingly new and different.*

We find then, on the one hand, a Germany which has run the gamut of emotional and political experience, not only impatient, but actually forced to take risks to avoid disaster, and, on the other, a France officially still faithful to the views of ten years ago, but in which new ideas are growing behind the old façade. Can the one man who has successfully kept a foot in either world again bridge the gulf? It is not even certain, as we go to press, whether, after his defeat for the Presidency, he will still represent France in international matters. Whatever happens, the Customs Union proposal† will come to be recognised as the most important event in Europe for many years. German and Austrian official circles may or may not have been surprised at the violence of the opposition. The encouragement which the proposal brought to their peoples later gave way to indignation at the response elsewhere. In any case, it is clear that the French Foreign Minister was shaken out of his lethargy,

* *Germany and the Germans*, by E. Diesel.

† The proposal has been referred by the League Council to The Hague Court for a pronouncement as to its legality.

France and Germany

and the final result may yet prove the proposal to have been a blessing in disguise to the whole continent. It may even be that the *Arbeiter Zeitung* of Vienna was unconsciously in a prophetic mood when it wrote :

Perhaps it would have been easiest to get this plan through w'thin the framework of a general understanding between Germany and France. Within the framework of a general understanding, in which concession would be granted by both sides, the consent of France would perhaps be most easily obtainable. But the atmosphere for an understanding of this kind was destroyed by the September elections in Germany.

A fault commonly found with M. Briand's memorandum of last year was that it subordinated economic change to the necessities of the political *status quo*. Recent events may change the formula and with it the whole drift of Franco-German relations. Therein still lies the key to European peace and prosperity. If the change comes, the Disarmament Conference may yet cease to be a cause of acute anxiety to everyone who is trying to peer into the future.

But the price demanded of France is high. Her safety seems to her to be bound up with her dominant position in Europe. This form of security—a false one if she only realised it, and certain to fail her sooner or later—she is asked to give up for a new order of things in which she will be only an equal among equals. Will she take her courage in both hands and accept the new order—trusting the future ? Only the event can show, but, in this instance, as so often happens, the bold course is the safer one. It is once more a case of whosoever will save his life shall lose it. Hardest of all perhaps, will she ever bring herself to merge her individualistic soul in that of an international community with all that it implies ? There is at all events—and it is perhaps the most hopeful sign in Europe—a growing consciousness in France that she, too, has reached a parting of the ways, from which there can be no shrinking back, and that the sign-post which points to the undoing of Germany would also lead to her own. The time left for her to make up her mind is, however, desperately short.

IS THE FIVE YEARS PLAN A MENACE?

I. A CHANGE OF ATTITUDE

ONE of the chief results of the progress made by the Five Years Plan has been to force the outside world to settle its attitude towards Soviet Russia, a step which, apart from any other consideration, is rendered imperative by the mere geographical position and the economic possibilities of the country. Considering the novelty and the character of the experiment, it is not surprising that the world should for so long have had no settled attitude, and the difficulty of arriving at a judgment has been increased by facile propaganda from both points of view. On the one hand, there has been the theory that the régime is monstrous and fantastic, and cannot possibly survive. Soviet Russia has been declared unreal, and everything connected with it has been denounced as unreal, possessing neither permanence nor importance. There has been a kind of blockade of indifference which has shut off Russia from the general interchange of ideas. On the other hand, the Bolshevik attitude has itself not been of a kind to encourage intercourse, while the unsettled state in which such questions as Russia's pre-revolution debts, or the position of concessionaires, has been allowed to remain, has acted as a deterrent to commercial dealings. Obviously such isolation could not last; it was impossible to keep such a colossal country completely apart, especially in view of the new energies which were being released there. No one, indeed, supposed any such thing, but for many years the general expectation was that the fog of Bolshevism would sooner or later disperse, and that Russia would return to the comity

Is the Five Years Plan a Menace?

of nations. No doubt this expectation has helped to give its vacillating character to the policy of the governments towards Russia. Germany is practically the only exception to the general attitude. From the very inauguration of the Soviet régime she showed herself ready to treat Russia as an equal. But there, of course, special causes were at work; the common experience of having been outcasts among the nations, and of having passed through the fire of revolution, Germany's paramount need for finding an outlet for her manufactures, and a revival of the Bismarckian tradition which makes friendship with Russia an indispensable feature of Germany's foreign policy. Her Eastern policy is as definite and as historical as her Western. While she is a Western Power and unlikely to surrender any of the interests and privileges of that position, her economic destinies are bound up, as they have always been, with the economic progress of Russia.

The inauguration of the Five Years Plan at first made very little difference to the general aloofness. The scheme was stigmatised as sheer Bolshevik bluff and as megalomania raised to the *n*th power. The first perception of the reality of the Plan and of the dramatic force with which it is being pushed came only when the collectivisation of agriculture that formed part of the Plan led to conflicts in the villages reminiscent of those of the civil war. But, while the "liquidation" of the kulaks as a class (the objective of the latest Russian offensive) roused the indignation of the world, it failed to disturb its basic indifference to Russia. It was left to the sudden appearance last summer of Russian grain on the world market to awaken the world to a consciousness of the magnitude of the Plan, and people then began to revise the ideas which they had formed of the country in which it was being carried out. The reports of fleets of steamers chartered by the Soviet Government to carry the grain, and the unloading of Russian wheat at all great European ports, came as a ringing challenge.

A "Planned" Export Trade

II. A "PLANNED" EXPORT TRADE

THE resumption of Russia's foreign trade after the stabilising of the revolutionary régime in 1921 brought with it a series of surprises, perplexities and disappointments. When, during the war and afterwards, people were discussing the possibility of resuming trade with Russia, they usually assumed that the character of this trade would be similar to that of pre-war time, that is, that it would be an exchange of the agricultural produce of Russia for the manufactured goods of the West. But this expectation has never come anywhere near realisation. The great supplies of grain and of other agricultural produce which were to have come from Russia did not materialise. And while, of course, the United States, Canada and the Argentine have had no reason to feel aggrieved at this disappearance of Russia from the wheat market, Great Britain and other grain-importing countries have been deprived of a source of supply on which they had counted. Much more widespread, however, and certainly more sincere, has been the disappointment caused by the absence of the expected demand for the manufactured goods of the West. Ever since Russia discovered that she could obtain no credits, she has limited her imports to such manufactured goods as have been absolutely essential to the re-equipment of her broken industries. The further trade developed the clearer it became that this refusal to allow manufactured goods to be imported into the country was neither an accident nor a mere temporary expedient. Soviet Russia was plainly resolved to take a completely new path in the field of international trade.

Expressed in the most general terms, this new departure consists in the adoption of the principle that foreign trade is to be no longer left free and unrestricted, but rigidly regulated. It will be a planned trade. Imports and exports

Is the Five Years Plan a Menace?

henceforward take their place in, and become a function of, the planned economy of the State ; that is to say, they are not a manifestation of the actual demands of the population but form an integral and deliberate part of the reconstruction of the country. In these circumstances, imports are given a predominant position, while exports serve mainly to pay for imports. Another implication of this new departure is the change in the character and structure of both imports and exports. The importation of consumer's goods, that is of manufactured articles, which used to total more than half of the pre-war imports into the country, is now reduced to a mere 10 per cent., the remaining 90 per cent. being strictly producer's goods, goods required for completing the industrialisation of the country, such as plant, machines and industrial raw materials. Exports, on the other hand, which in the old days were practically limited to foodstuffs, agricultural raw materials, timber and furs, now include anything and everything which can be marketed, from wheat to manganese ore, from flax and furs to anthracite coal, from pulp wood and matches to electric bulbs. A due appreciation of this new aspect of Russian foreign trade is essential to a proper understanding of the relations between Russia and the outside world.

There is a widespread belief outside and even inside Russia that the scarcity of goods in that country is largely due to the enforced exportation of commodities. While it would be wrong to say that the scarcity is due to these exports, it is certainly intensified by them. And yet the Soviet press is probably right in maintaining that the export trade is the most undeveloped branch of the national economy. What then are the facts ?

In 1913 the value of exports amounted to over 1,500 million roubles ; while in 1928-29 (measured in pre-war prices) it amounted to about 700 million only.* The decrease of exports will appear still more striking if the

* See the *Soviet Union Year Book*, 1930.

A "Planned" Export Trade

reader will realise that the general level of production, both industrial and agricultural, has increased in the same period by approximately 30* per cent. Expressed, as a proportion of the general level of production, exports will now be found to have been reduced by nearly two-thirds. Before the war Russia exported over 8* per cent. of her annual production, whereas in 1929 this proportion had fallen to less than 3* per cent. The same result will be found if Russia's share of world trade is considered. In 1913 this was over 4 per cent.; in 1929 it stood at 1.4 per cent. This last figure (given by the League of Nations), may require some explanation for its proper understanding. In the first place, allowance has to be made for Russia's reduction of territory, and secondly, for the growth of the volume of world trade. Yet, when every allowance is made, the figure shows that Soviet Russia has fallen badly behind in the export trade.

This circumstance is worrying the Bolsheviks a good deal, for the volume of exports sets the limit for imports, and any curtailment of the latter must bring about a retardation of the *tempo*† of industrialisation. Resorting to their customary manner of solving urgent State problems by "shock methods," that is, by the concentration of every effort upon one particular "front," the directors of the State departments concerned are frenziedly engaged in forcing the exportation of everything which can be withdrawn from internal consumption. It is safe to predict, however, that, despite the utmost effort, reinforced by the application of the "Bolshevik will," which, it is claimed, is capable of breaking down any obstacle, the volume of Russian exports will at best only slightly increase and will represent a small and diminishing ratio of the general total of production, mainly because the basic tendency of national economy, as well as the object of the economic

* See the *Soviet Union Year Book*, 1930.

† A word in common use by the Bolsheviks signifying "rate of progress."

Is the Five Years Plan a Menace?

plan in present-day Russia, is the development of the internal market.

Russia has now none of the motives which generally stimulate foreign trade. There is no over-production, no need for getting rid of an unmarketable surplus and no necessity for stabilising prices on the internal market. With the exception of timber, oil and expensive furs, Russian exports represent not a surplus but goods withdrawn from the internal market. Even of grain, of which there is no scarcity at present and the production of which is some 12 per cent. higher than before the war when Russia exported 19 million quarters of wheat annually, there is as yet no real exportable surplus. The underlying motive of the ambitious scheme for increasing the area under cereals and the yield of crops is obviously to enable Russia to regain and surpass her old eminence in the grain market. But the result of these efforts ought not to be felt in the world market for some years; for even a very considerable increase in production should and could be totally assimilated in the country, first in improving the quality of the people's bread, and then as fodder for the cattle. To cope merely with the meat and dairy scarcity in Russia all available grain ought to be utilised and none exported. And yet grain is being exported and will probably continue to be exported in spite of the economic tendency to the contrary.

Even such a bird's-eye view of the tendencies of Russian foreign trade as is here presented reveals the fact that, whatever its potentialities may be, it is at present small in quantity, represents a maximum effort and runs contrary to the basic development of Russian national economy. Add to this the fact that it has a balance unfavourable to Russia, that the volume of imports exceeds that of exports, a difference that has had to be made good by bills, credits and shipments of gold, and it will be seen that the alarm that has arisen in foreign countries at the expansion of Russian export trade has little justification. Such apprehension has to be explained by special circumstances.

A "Planned" Export Trade

It is due, in the first place, to the fact that expansion took place in a period of catastrophic fall in world prices, a downward movement which Russia's readiness to get rid of her goods at any price did little to arrest ; secondly, to the discovery that Russia's State monopoly of foreign trade has greatly intensified the impact of Russia's exports on the world market. But the attempt made by a section of the press to prove Russian exports, of wheat in particular, responsible for the fall of world prices does not call for serious discussion. It is negatived by the simple fact that this fall began nearly a year before Russian wheat reappeared on the world market.

The fall of prices, instead of being due to the appearance of Russian exports, exercised rather an unfavourable effect upon them. Russia had to export a considerably larger quantity of goods to pay for her imports than she would have exported had there been no glut on the market. It has to be explained that, as an importer, Russia doubtless gained by the fall in prices, but not greatly, since the prices of her main imports, plant, machines and tools, were only slightly affected by the slump. As an exporter, however, she was badly hit ; for her exports, practically without exception, were raw materials, the prices of which sank to rock-bottom. Moreover, in order to find a sale in this glutted market, Russian prices had to be still further cut.

It was the combination of these two factors, the determined expansion of her export trade and the ruthless cutting of prices, which made the world accuse Russia of dumping. The charge of dumping has, however, never really been made out, the only point definitely established being that Russian goods were sold below world prices. There was a suspicion that the prices at which some, if not all, of the goods were sold bore no relation to the total costs of production, transport and handling. To prove this is, however, difficult, for the value of the rouble at this time is incalculable, so that it is practically impossible to discover the cost of production. All the careful calculations, at which

Is the Five Years Plan a Menace?

some observers have been at pains to arrive, are worthless in view of the arbitrary value of the rouble which forms the basis of all their estimates. It is equally difficult to accept at the moment the Bolshevik claim that their low cost of production is due mainly to the abolition of rent and of capitalist profits.

But even were it possible to establish beyond doubt the fact that Russia is selling her goods below cost price, and is actually losing money on every ton of grain, oil and manganese, and on every standard of timber she exports, this would only throw the more striking light on her need for foreign *valuta** which is so urgent and paramount that she is ready to pay for it heavily. (This is no novel experience for her. She has long been accustomed to pay usurious interest on the occasional credits which she can obtain in the open market.) Several of the conditions that would justify a charge of dumping, as the phrase is normally understood, were lacking. There was plainly no desire to maintain prices on the internal market by the manœuvre of exportation; the price level of goods in Russia, save for a few articles on the uncontrolled (private) market, is not determined by the operation of supply and demand, but is fixed in advance by the "planning" organs of the State, with very little, if any, consideration of the amount of goods on the market. As to the surplus which cannot be marketed in the ordinary way and has to be unloaded on the world market, no such surplus exists or is likely to exist for many years.

III. THE PLAN AND ITS LIMITATIONS

"**B**UT what about the Five Years Plan?" is the obvious interjection at this point. "Does not a denial of Soviet dumping disregard the main object of industrialisation in Russia which, if it aims at anything,

* i.e. Exchange.

The Plan and its Limitations

aims at enabling the U.S.S.R. to swamp the world market with cheap goods produced at the command of a monstrous super-trust under labour conditions approaching to slavery ? ”

Now the programme of industrialisation known as the Five Years Plan is so complex both in origin and aim, is such a mixture of elemental forces and planned efforts and represents such an interplay of realities and fantasies, that it defies concrete and simple definition. It has so many aspects that practically any definition may apply to some of them, and the dozen or so definitions and explanations which have already been given could easily be doubled. Yet the explanation that the Five Years Plan aims at undermining the capitalist system by a scheme of dumping, which is designed to produce general unemployment and to foment world-wide discontent, is perhaps the only one which not only fails to hit the bull's eye, but misses the target altogether.

That the Five Years Plan has been successful is now frequently taken for granted. In some ways, its success has surpassed even the very ambitious estimates made by its authors. But, alike in Russia and the outside world, the measure of this success has been very greatly exaggerated. The reason for this exaggeration in Russia is easy to understand. The demands which the Plan makes on the workers are so exacting that the latter seek compensation in promises and in the expectation of its almost miraculous success. What more glorious prospect could there be than the vision of Russia emerging from five years of travail as one of the leading industrial countries ?

Nor is there any mystery about the motives for the exaggeration in the outside world, though they are more complicated. One obvious reason for over-estimating the results of the Plan is that at first they were underestimated. The initial belittling of the Plan's success led naturally to the other extreme of magnification, when the real scope of the effort and achievement was revealed.

Is the Five Years Plan a Menace?

Nor must we ignore the fact that the success of the big Russian experiment appeared the greater when seen against the background of world depression. Is there any wonder that in a world ravaged by unemployment, the news that Russia can employ all her workers and even demand more labour should be regarded as an indication of the success of the Plan?

The Five Years Plan is the child of revolution and "big business" and so naturally must have its slogan. It has indeed many slogans, but the one which expresses essentially the spirit of the "drive" is usually translated "Let us overtake and outstrip," a reference of course to success in catching up with and in surpassing the production of the great capitalist countries. This English rendering of *Dognat e peregnat* (run up to and run past) deprives this slogan not only of its crispness but of a good deal of its characteristic meaning; but it is probably faithful enough to give the reader some inkling of the mixture of naïveté, arrogance and optimism which distinguishes both the Bolshevik leaders and their flock. Confronted by such a boisterous and impetuous determination to get on, Western Europe might naturally regard this slogan of the Five Years Plan as a reversal of the famous motto of the English Volunteers: "Defence not Defiance." But it is well to read this slogan together with the others, especially the one proclaimed by Stalin: "We are a hundred years behind the leading nations of the world, and unless we cover this distance in a short few years, we shall be crushed." How far then the aim of the Plan is "defiance" and how far "defence" must remain a matter of speculation. Whatever the answer, the Bolshevik propaganda, intended to arouse the enthusiasm of Russian workers for the Plan, has apparently succeeded in creating in the West a belief, not only in the Bolshevik intention to outstrip capitalism but even in the possibility of its doing so. A year or two ago no sane man would have been expected to discuss that contingency seriously. It is perhaps the highest

The Plan and its Limitations

compliment that could be paid to the Plan, that such a discussion should now be considered necessary.

The new situation is obviously caused by the fact that Russia has succeeded in establishing a record rate for industrial development. Hitherto the highest known rates of increase of industrial output had been recorded in the development of the United States in the second half of the nineteenth century. Immediately before the world depression, even the United States' rate of annual increment was no more than 4 per cent.*; while in other countries it was even less. When then it appeared that the rate of annual increment in the State industries of Soviet Russia during the first two years of the Plan's operation averaged 24 per cent., according to the official figures, the idea of Russia's catching up the leading industrial countries began to look a good deal less fantastic than it originally appeared.

But a mere citation of annual increments is of no very great assistance in enabling observers to compare Russia's potentialities of production with those of the most highly developed industrial countries. Even if the annual increments of the first two years are taken at their face value—and it will be shown later that for the purposes of comparison they must be reduced—and even if those of the final years double these, as the Bolsheviks believe they will, then, although the distance covered will be admittedly very considerable, the goal, "running past" the capitalist world, will be nearly as far off as before. And this of course is because Russia started on the race of industrialisation with so very heavy a handicap.

To do them justice, the Bolsheviks are quite aware how far they are from the goal. To prove this it is sufficient to quote Stalin, who in his address to the Congress of the Communist party last summer warned his comrades how "devilishly" Russia was handicapped in the race with capitalism.

* See *Recent Economic Changes in the United States*.

Is the Five Years Plan a Menace?

Take for instance (he said) electrical power. Here we reached a very high tempo. Between 1924 and 1929 we increased the generation of electrical energy nearly 600 per cent. In the same period the United States of America increased theirs 181 per cent., Canada 218 per cent., Germany 241 and Italy 222 per cent. As you see, we have achieved an extraordinary tempo, far higher than that of any other country. But if we compare the actual level of production of electrical power in these countries with that reached in the U.S.S.R. the picture will be by no means consoling. In 1929 the power generated in the U.S.S.R. was only 6,465 million kwt. hours, while in the United States it was 126,000 million, in Canada 17,628 million, in Germany 33,000 million, and in Italy, 10,850 million. We find the same thing if we take the production of pig iron. Between 1927 and 1930 this production was nearly doubled, a very satisfactory result. But if one compares the U.S.S.R.'s actual level of production of pig iron with that of capitalist countries the same unconsoling picture is presented. To begin with, we shall not reach even the pre-war level of pig iron production until next year. Then, a comparison of our rate of pig iron production with that of the West shows the following picture. In 1929 the production of pig iron in the United States was 42.3 million tons, in Germany 13.4 million tons, in France 10.4 million tons and in Great Britain 7.7 million tons. In the U.S.S.R. by the end of 1930 iron production will only reach 5.5 million tons.

This comparison could indeed be pursued into all industries with practically the same or with even more striking results. If, for the sake of illustration, we assume that Russian production is one-tenth of that of the leading capitalist countries (a very liberal estimate), Russia will have to increase her production tenfold* to reach the present level of her capitalist rivals; even so, unless we also assume that the latter's level of production will meantime remain stationary, the time in which Russia can overtake them must be still further postponed. It is amazing that Western newspapers should have implicitly credited their own countries with such feeble potentialities for further development.

How severely Russia is actually handicapped in the industrial race can only be grasped if the test of *per caput* production is applied. Take again the generation of

* The Five Years Plan presumes a trebling of production only.

The Plan and its Limitations

electrical power. Here in sheer level of production the United States is twenty times ahead of the U.S.S.R. ; but if production is considered per head of the population, the United States is over thirty times ahead of the U.S.S.R. A direct comparison of the length of the railways in the United States with those of the U.S.S.R. is impressive enough—400,000 kilometres as compared with 80,000 kilometres—but what is far more significant is the fact that in the United States on every 1000 square kilometres there are 51 kilometres of railways, while in Russia there are only 3·5.

So much for Russia's relative handicap in the race for industrialisation. But we must remember that this industrialisation is beset with internal difficulties. Russia, so to speak, has also an absolute handicap in the "pre-capitalist" backwardness of her national economy.

In the atmosphere of exaggerated expectation caused by the progress of the Plan, people are apt to forget that Russian economy has entered a transition period in which socialised State industry, though dominant, exists side by side with privately owned and privately run industry. In other words, they fail to realise that while a great deal of Lenin's New Economic Policy has been thrown overboard, it is not completely obsolete. And it is only fair to say that in Russia, too, the death of the New Economic Policy had been taken for granted by many people. Only a few months ago this illusion caused the Bolsheviks to embark on a radical change in the credit system, based on the supposition that money in Russia is rapidly losing its primary function and subserves the business of accounting only. This premature discounting of the importance of money created a serious economic dislocation in trade and industry, and the consequence was a hasty retreat of the Commissariat of Finance and the re-establishment of the credit system on N.E.P. (i.e., capitalist) principles. It is amusing to note that this necessity for admitting that the New Economic Policy is still very much alive coincided with the

Is the Five Years Plan a Menace ?

dirges sung over its obsequies on its tenth anniversary. The celebrations, on March 21 last, were naturally rather equivocal ; for the hierophants, while pronouncing the policy dead and interring it, were yet at pains to impress upon the mourners that it was not yet actually *in articulo mortis*, but was, so to speak, being buried alive.

The *Pravda* on this occasion, after assuring its readers that the N.E.P. had entered on its final stage of evolution, used the whole weight of its authority to oppose the impatience of those who, presuming on the alleged death of the N.E.P., demanded a return to Communist principles.

Only braggarts, babblers and fools (it asserted in its leading article on March 21) can talk to-day, apropos of the last phase of the New Economic Policy, of the dying out of the monetary system, of the possibility of replacing State and co-operative trading by the direct exchange of goods, and of the possibility of introducing the principle of equality in wages, in distribution of supplies or in distribution of the profits among members of the collective farms.

This warning that the N.E.P. is still operative is useful to show not only that the socialised section of Soviet economics is still permeated with the principles and methods of capitalist economy, but that a considerable, though diminishing, section of national economy in Russia is still predominantly capitalist in character. It is not easy to determine how great this section is, for the division between the socialised and privately owned sections is not clear-cut, but leaves room for a variety of hybrid combinations. At any rate it is obvious that the Five Years Plan operates chiefly in the former section and exercises a looser and more indirect influence on the latter. This brings us back to the point indicated earlier, that the annual increments of production achieved by the Plan need a further correction if they are to be regarded as representing progress reached by the entire national economy. The indices of the Five Years Plan, it must be remembered, apply not to the total volume of Russian industrial production, but only to that of the large State-

The Plan and its Limitations

controlled industries ; outside these there remain the small private and co-operative industries, the individual peasants and the *kustars* or artisans.

What proportion of national economy is thus unrecorded by the indices of the Plan it is difficult to state with exactitude. In his book *The Economic Life of Soviet Russia*, Professor Calvin B. Hoover makes an attempt to calculate what was the complete annual increment of industrial production for 1929. For the Plan it is given as 23·7 per cent. Professor Hoover reduces this figure to 16·8 per cent. on the ground that "large-scale State industry produces only from 70 to 75 per cent. of the total industrial product." He further declares that a similar correction must be made in respect of agriculture, which would reduce the figure of the annual increment still lower.

Another way of arriving at the relative proportions of the national economy embraced and excluded from the Plan would be to compare the amount of Russia's total national income with the sum which is annually mobilised for the purposes of the Plan. For 1931 the national income is officially estimated at 49,000 million roubles, while the sum embraced by the Finance Plan is only 31,750 million roubles. This permits us to assume that 37 per cent. of the national economy is still outside the control of the Plan, a figure which goes far to corroborate the estimate made by Professor Hoover, who may also be right in making a further discount to meet the low quality of Soviet goods.

These qualifications must not of course be unduly stressed. The annual increment under the Plan, however much it may be discounted, will remain remarkable enough, marking probably a record in economic history. What the qualifications are intended to prove is that the alarming estimates of the consequences of the Plan cannot be borne out by the facts. However successful the Five Years Plan proves, it will not make Russia a formidable competitor with the more highly industrialised countries.

In a country with a rapidly-growing internal market,

Is the Five Years Plan a Menace?

foreign trade must in any case remain of secondary importance ; and even if the original Five Years Plan is followed by a second Plan, and then by a third, they will not make Russia a great exporting country. Her development will probably be similar to that of the United States, where, it will be remembered, the effect of industrial expansion only began to be felt in the foreign market fifty years after it commenced, and where even now foreign trade, although important, represents only a small fraction of the national economy. Some may perhaps consider that the analogy with the United States is not quite correct, because there the growth of the internal market was due to an ever-increasing influx of immigrants. In Russia, however, the situation is by no means dissimilar, though there it is the enormous growth of the population— $3\frac{1}{2}$ millions a year—that is producing the same effect. But the main similarity between Russia and America consists of course in the fact that both are vast and self-sufficient countries.

The capacity of the Russian internal market for the consumption of industrial as well as agricultural products will, it is believed, grow more rapidly than their production. This tendency has not yet clearly revealed itself ; but even now there are strong indications that production, even at the accelerated tempo of the Plan, will fail to keep pace with the growing demand. This disproportion between demand and supply will apply not only to consumer's goods, but even to the output of the means of production. It is of course more palpable in the case of such necessities as wearing apparel. The increase in production of these goods has been considerable ; in fact, it has been quadrupled and more in many cases. And yet the need of these goods is not only greater than in pre-war times, but is growing more pronounced in proportion as they are brought into the market. Take, for instance, boots and shoes. In pre-war times the annual manufacture of leather boots and shoes was probably no more than 10 million pairs, to which must be added another 2 or 3 million pairs

The Plan and its Limitations

imported. And this amount—one pair for every eleven persons—somehow satisfied all demands. But the production of boots and shoes last year amounted to 68 million pairs,* nearly one pair for every two and a quarter persons. Yet, as everyone acquainted with Russia knows, the boot and shoe famine remains one of the crucial problems of the U.S.S.R. The reason for this is quite simple. Before the war only a privileged section of the whole population went really well shod. The 80 or 90 million peasants had to look after themselves, and generally used such substitutes as shoes made of bark. Now, however, a pair of boots or shoes has become a necessity ; and it is the peasants, whose increasing purchasing power is an important factor in the national economy, who are now demanding and buying them. In order to provide every person in Russia with at least one pair a year, the production of 1930 will have to be trebled. But this raises another problem, for the increased manufacture of leather goods presupposes a considerable development of stock-breeding.

The same story of an awakening appetite for goods, and a consequent expansion of the internal market, can be told of any industry. The whole process of industrialisation in Russia is being stimulated by the irresistible demand for a higher standard of living. This is the explanation of the frenzied increases of the Plan year by year and month by month. To ascribe these increases of an already swollen programme to an intention to swamp the foreign market is to take a superficial view ; they have no relation to the foreign market, and are caused solely by the insatiable demands of the internal market. The necessity, for instance, of adjusting the production of iron and steel to the ever-growing demands of the new mechanised agriculture not only upset the metallurgical section of the Plan, but also threw out of gear the programme for coal mining and electrical power ; and this new standard of production, in its turn, made inevitable a doubling of the engineering

* Official Statistics of Production.

Is the Five Years Plan a Menace?

programme and a complete reorganisation of transport. This necessity for raising production and increasing its tempo naturally has repercussions on both the amount and character of imports and exports. To keep pace with such development, more machines and more equipment had to be brought into the country, and these imports had to be paid for by sending goods out of the country, not goods produced for export, such as timber, furs, oil, but goods withdrawn from consumption.

IV. DEVELOPMENT ACCORDING TO PLAN

THE vogue of the Five Years Plan has had the effect of making "planning economy" a popular slogan. The fact that a backward country, unaided, was capable of reaching an unusually high rate of industrial production was attributed to the element of planning. But its possibilities and limitations have yet to be discovered. The Bolsheviks claim to have invented a true "perspective plan," that is, a plan which can foresee and organise economic activity for a number of years in advance, has so far not been made out. Their original plan has never really been adhered to. It supplied merely a definition of destination, signposts along the road—the General Line, as the *Piatiletka* is popularly called in Russia. The Plan in operation, the actual programme of work, is furnished by the so-called "control figures," which prescribe the concrete tasks for the current year. But even these control figures are changed and modified in accordance with the needs of the day and the actual forces at work. Yet only a prejudiced person would deny that planning, even in its present inchoate form, has played and is playing a remarkable part in shaping the national economy of the U.S.S.R.

How powerful and how creative the principle of planning is cannot better be realised than by a recollection that only ten years have passed since it was predicted on all hands

Development According to Plan

that the promulgation of the New Economic Policy was opening wide the gates for a capitalist development of Russia. Any doubts which may have existed as to the real intention of this policy—its double recognition of (1) the defeat of communism by the peasant, and (2) the inevitability of a return to capitalism—have now been completely dissipated by the publication in the *Pravda* of March 21 of certain notes made by Lenin prior to its promulgation. To the question whether the New Economic Policy constitutes a return to capitalism Lenin returns a very frank answer. “Our too hasty, too direct and unprepared communism was caused by the war and by the impossibility of either obtaining goods [from abroad] or of starting the factories. There are many stages of retreat. It is possible to loosen the rope without cutting it ; let it go, ease it.” These entries made in his notebook solely for his own use are of necessity mere shorthand hints ; but they cannot be called enigmatic, and they leave no doubt that Lenin realised all the implications of the New Economic Policy. Yet they prove conclusively that he was not giving up hope of establishing communism. It was just at that time that he proclaimed his belief that the preservation of Soviet rule and of plan-economy would secure ultimate victory.

The immediate result of the New Economic Policy was exactly what was expected. Capitalism returned and proceeded to recover its lost position in town and country. But the result of the subsequent struggle between the Soviet State and the Nepmen was the re-establishment of communism, no longer “hasty, direct and unprepared,” but in full vigour, flexible and well entrenched.

To explain how this re-establishment came about would be to write a history of that all-important decade in Russia which we have just lived through. It will perhaps be sufficient to state that it has been due mainly to the preservation by the Soviet Government of the “commanding

Is the Five Years Plan a Menace?

heights," the plan-economy and its most valuable expression, the monopoly of foreign trade. Had the Soviet Government renounced this monopoly even for a short period, there can be no doubt that capitalism would have made such inroads, and would have so firmly entrenched itself that, to adopt Lenin's metaphor, the rope, even if loosened, would have strangled communism. On the other hand, without the principle of planning, the Soviet Government would never have accumulated even the initial resources to start reconstruction.

In conclusion, it may be repeated that the popular notion that the expansion of Russian foreign trade is a menace to the capitalist countries, and that it is necessary to place an embargo on Russian exports, is fallacious.

Even on the assumption, indeed, that trade conducted by a State monopoly may be regarded in a certain sense as menacing, the influence of world trade upon Russia is likely to be much more considerable and much more "menacing." Some of the Bolshevik leaders scout the idea that the Soviet State has anything to fear from contact with the foreign markets, for they believe that the monopoly of foreign trade is a sufficient safeguard against the ebb and flow of world economic influences. The effect which the fall of prices in the world market has had on the Soviet balance of trade is, however, likely to disturb their complacency, unless for non-economic reasons the outside world continues to neglect its opportunities of commercial intercourse with Russia and thus of influencing the future history of the Communist State. The theory that an industrialised country has less capacity for absorbing foreign exports than an economically backward country is quite unsound. The cases of Germany and Japan have demonstrated clearly that industrialisation awakens demands, creates new ones and increases the purchasing power of the people; and manufacturing countries have much more to hope from an industrialised Russia as a buyer than to fear from her as a competitor.

ECONOMIC SAFEGUARDS IN INDIA

I. THE BACKGROUND OF INDIAN ECONOMICS

AMID the din of India's demands for constitutional change, and the dust of inter-communal strife, the economic problems, which the adjourned Round Table Conference must face, tend to be regarded as a side issue. On the contrary, if we look beyond the next dozen years, the economic part of India's problem stands out as the most momentous of all. In rousing the population of India, the demand for economic freedom has been among the most effective weapons in the Swarajist armoury, not least because it has won over into that camp forces which are not of their nature allied with revolutionary politics. The struggle for a relaxation of the economic and financial restrictions now proposed will probably be hard-fought and bitter. It is therefore essential to understand what is the accusation against the economic administration of the British, how far it can be rebutted and how far admitted.

A certain economic text-book—not, mark, a Congress manifesto, but a professedly scientific work much read by university students in India—says of India under British rule :

Her fiscal policy is determined by the interests of English producers abroad, her currency is trifled with and experimented upon without reference to her interests, her borrowings are not for industrial development, the resources of the Government are not pledged for attracting capital on reasonable terms, and profits which, if they remained within the country, would fertilize and multiply the means of prosperity, are drawn away to be enjoyed by absentee shareholders abroad, leaving the people denuded of the means of expansion and development.*

If all that were true, then the insistence upon economic

* *The Wealth of India*, by P. A. Wadia and G. N. Joshi, p. 116.

Economic Safeguards in India

mitigations of responsible government would be shamefully selfish and unjustifiable. How much of it is true? India, a land of villages, over 80 per cent. of whose population is primarily dependent upon the cultivation of the soil, has certainly been laggard in the race for industrial development, compared with Western countries or with Japan. Certain indigenous industries, like muslin-weaving, were killed by the advance of machinery in the West. Some of the most important trades and industries of India, notably the jute mills, sea transport, exchange banking and insurance, are wholly or largely controlled by British interests, whose monopolistic position it is very difficult to assail by ordinary commercial means. The exchange has frequently been the subject of experiment, not always successful. During the past century, silver has been the principal currency of India. Fluctuations in the relative value of silver and gold proved a great hindrance to international trade, and on several occasions efforts were made to place India upon a gold standard. They never succeeded, but in 1902 the "gold exchange standard" was established, the Government of India undertaking to maintain the external value of the rupee at a fixed level (1s. 4d.) by means of the sale of sterling or rupee bills. The system failed during the war, when the enormous demand for India's products forced up the value of the rupee, and again in 1921, when the newly fixed 2s. ratio broke with the collapse in the price of silver. In 1923 the Hilton Young Commission on Indian Currency recommended the temporary continuation of the sterling exchange system, the value of the rupee to be 1s. 6d.; meanwhile steps were to be taken with a view to the establishment of a central reserve bank and the inauguration of a full gold standard without gold currency, as in Great Britain to-day. The ratio was fixed and the Government of India assumed a statutory obligation to maintain it, but a Bill for the establishment of a reserve bank was thrown out by the Legislative Assembly in 1928.

The Background of Indian Economics

But the heart of the indictment is the exploitation of India for the benefit of British manufacture and the refusal to encourage native industry—the accusation that Britain applied her own profitable free trade system to a country which needed something else. Before the war, no real attempt was made to protect Indian industries by means of import duties. The general import tariff was gradually diminished to nothing between 1859 and 1882; from 1894 to the war it was 5 per cent. Meanwhile cotton yarns and piece goods were given preferential treatment, the duty on cotton piece goods from 1896 onwards being only 3½ per cent. and an equivalent excise being raised. Thus the accusation of favouritism towards Lancashire is well founded. From 1916 onwards the general import duty has been steadily raised, and has become protective in effect; from 1922 to the present year it was 15 per cent. At the same time a deliberate policy of protection has been adopted. In 1915, Lord Hardinge wrote in a despatch to the Secretary of State: "It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war, unless she is to become more and more a dumping ground for the manufactures of foreign nations." The Fiscal Commission of 1921-22 concluded "that the industrial development of India has not been commensurate with the size of the country, its population and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole;" they therefore recommended the establishment of a Tariff Board, and the adoption of a protective policy. The Commission's attitude having been accepted, several Indian industries have received customs protection and sometimes bounties. It should be added that, according to the so-called "Fiscal Convention,"* the Secretary of State does not interfere with the enactment of any

* Fully described on pp. 243-5 of Vol. I of the Report of the Indian Statutory Commission.

Economic Safeguards in India

tariff measure upon which the Government of India and the Indian Legislature are agreed.

II. FISCAL AND FINANCIAL CONTROL

THAT, then, is the historical background against which proposed economic safeguards must be set. As formulated in the committee reports of the Round Table Conference, they divide under three heads. First, there is the reservation to the Governor-General of such essential powers in regard to budgetary arrangements and borrowing "as would enable him to intervene if methods were being pursued which would, in his opinion, seriously prejudice the credit of India in the money markets of the world."* Under the same head may be put the condition that the service of loans, with adequate provision for redemption, should be secured as Consolidated Fund charges. Secondly, there are safeguards, both permanent and temporary, with regard to currency and exchange. And finally, there is the demand that no legislative discrimination against the British mercantile community trading in India should be permitted.

With these exceptions, be it remembered, the Conference did not contemplate † "any differentiation between the position of the Finance Minister and that of any other Minister responsible to the Legislature, and in regard to taxation, fiscal policy and expenditure on objects other than those under the Governor-General's control, he would be responsible only to the Legislature." Lord Peel and Sir Samuel Hoare feared that the financial proposals would disturb the confidence of the commercial classes and impair the stability of Indian credit, but, on the other hand, Indian opinion was that the financial safeguards went too far, so perhaps what appears in the report may be regarded as the proposal of the Conference as a whole.

* Cmd. 3778, p. 215.

† Op. cit.

Fiscal and Financial Control

With regard to protection and fiscal policy generally, no qualification of full responsibility has been proposed. The question naturally prompts itself—what will be the future of Indian fiscal policy? What has been quoted above seems to foretell an era of unmitigated protection. Lord Chelmsford and Mr. Montagu reported: "The theoretical free trader, we believe, hardly exists in India at present." Certainly the ideology of Swaraj is saturated with protectionism. But here in India there are indications that opposition to protection is steadily developing. A spirited fight was put up by the Bengal representatives in the Legislative Assembly against the recent imposition of an additional import duty on salt, on the ground that it would give protection to Bombay at the expense of the Bengalee consumer, and against the proposed wheat duty, because it would injure the milling industry of the Hooghly. So much opposition was roused by the Tariff Board's proposal to give increased protection to the Indian galvanised iron and steel industry for three years, when it was introduced in the Assembly at the end of last January—because, said its opponents, it would impose a burden of 1½ crores (£1,125,000) on the consumer in order to benefit the manufacturer to the tune of about 9½ lakhs (£71,250)—that the operation of the measure had to be restricted to a single year. Still, India will undoubtedly be firmly protectionist for some time to come, and the measure of Imperial preference that she will grant will be small. Bitter opposition was aroused by the introduction of British preference in the cotton duties last year. Racial antipathies, even under the most liberal constitution, will not subside for some time, and, in any case, the proportion of India's imports that comes from the British Empire is so high (nearly 53 per cent. in 1929) that any substantial measure of preference would vitiate the protectionist policy.

Moreover, for some little time an unofficial policy of discrimination seems likely to prevail. British cloth has

Economic Safeguards in India

for long been displayed as the symbol and instrument of imperialist exploitation. The Congress will not be persuaded to abandon their anti-foreign cloth campaign, which is as much an article of their faith as Swaraj itself. The boycott that accompanied the civil disobedience movement was very successful. Between 1929 and 1930, imports of piece goods from the United Kingdom fell off by 37 per cent., those from other countries by 27 per cent. This form of unofficial protection is certain to continue, though much of the anti-British discrimination which now characterises it may be removed if there is a political settlement.

Against such procedure no constitutional safeguards would be of any worth ; nor would they be in place beside the grant of fiscal autonomy. The proposed safeguards concerning budgetary stability are in a different class. The service of existing loans raised on the authority of the Secretary of State must be secured by being charged upon a consolidated fund. Efforts will probably be made by Congress delegates to persuade Great Britain to assume some part of India's national debt, under the heads of pre-mutiny debt, debt incurred for "imperialist" wars in Burma and elsewhere, and the £100 million of debt of which Great Britain was relieved by the Government of India as part of the latter's contribution to the prosecution of the Great War. Whatever abstract justice these claims may seem to possess, they can hardly be entertained in practice now. The disputed items—except the war debt, of which a very small fraction still remains outstanding—cannot be separated from the general body of India's debt. Indeed, to admit the principle that a country can financially disavow its past would be highly dangerous. As for future sterling borrowings, the position is quite clear. If India is to have the advantage of the Colonial Stock Act, then, as in the Dominions, the authority of the Secretary of State must be obtained for the raising of each loan. The consequent enhancement of India's credit would be much to the country's benefit.

Currency and Exchange

Internal borrowings and budgetary equilibrium present a more difficult problem. Provincial Governments now borrow from the Provincial Loans Fund, and they would scarcely choose to relinquish a system which enables them to share in the credit of the whole country. The Federal Government would thus retain a powerful check upon possible financial misdemeanours on the part of the provinces, and there seems to be no need for any further safeguard, except the Governor's right to intervene if the maintenance of orderly government were seriously prejudiced. The moot point is the right of interference with the federal budgetary arrangements, should a series of deficits occur, and with the internal borrowings necessary to cover those deficits. Are Indians to be trusted in that matter, or are they not ? For a long time India must be a borrower from abroad, and it is reasonable to suppose that Indians will be able to judge, as well as can Englishmen, of the importance of keeping their country's credit sound.

III. CURRENCY AND EXCHANGE

THUS very little modification of budgetary and fiscal autonomy seems to be required. But the field of currency and exchange is a battleground of bitter controversy. The essential features of the present system are, first, the direct responsibility of Government for the issue of currency and the maintenance of its international and internal convertibility ; and, secondly, the confinement of the gold anchor to international exchange operations. There is no reserve bank, and the rupee is not directly convertible into gold. Now plainly two questions arise ; first, what system of currency and exchange shall we have in India ; and, second, what is to be the ratio of exchange between the rupee and gold ? The present system is a bad one. The Finance Member of the Viceroy's Executive Council combines the incongruous functions of

Economic Safeguards in India

Chancellor of the Exchequer and Governor of the Bank. Currency and exchange policy is constantly subject to political pressure and complaint. The Imperial Bank holds government balances and performs certain other of the normal functions of a central bank, but it is a commercial institution, not a banker's bank, and there is no central monetary power to determine general terms of credit and so to expand or contract the means of payment available.

The evils of the present system cannot altogether disappear until banking and the use of paper currency become as much part of the national habits as they are in Western countries. But obviously a central reserve bank is urgently needed, all the more under a new and more democratic constitution. The establishment of such a bank must precede the grant of full financial responsibility, otherwise the day-to-day administration of currency and banking must become the butt and plaything of politicians. That was recognised by the Round Table Conference. The Federal Structure Sub-Committee recommended "that efforts should be made to establish on sure foundations, and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of currency and exchange." Freedom from political influence is essential; it must be recalled here that the Reserve Bank Bill was thrown out by the Legislative Assembly in 1928 because the Government insisted upon the exclusion of politicians from the directorate of the bank, but fear of the domination of British commercial interests is not so strong now, and there is no reason to suppose that the Indian delegation will be so determined to subject the bank to political machinations.

The sub-committee did not lay down that the establishment of a reserve bank was to be a condition of the inauguration of the reforms. It may not yet be possible to assemble the necessary resources and to create the necessary

Currency and Exchange

machinery. The Banking Inquiry Commission now sitting may throw some light on that question. The sub-committee recognised that until a sufficiently strong bank could be set up "some special provisions will be found necessary to secure to the Governor-General adequate control over monetary policy and currency." This sounds innocent enough. The political influence of a new and inexperienced Indian government might be disastrous in this delicate matter, and in any case the establishment of a reserve bank and the maintenance of sound credit abroad would be severely handicapped by any attempts to change monetary horses in mid-stream.

But Indian opposition to that condition is very strong. Powerful Indian commercial interests urged the Hilton Young Commission to recommend a 1s. 4d. ratio. The Commission, however, chose 1s. 6d., and this was adopted in 1925. Since then the campaign in favour of 1s. 4d. has been vigorously continued, and its protagonists, by arguing that the higher exchange handicaps the poor Indian exporter to the advantage of the British manufacturer, have won over almost the whole Nationalist camp. The one-and-fourpenny rupee very largely explains the strange coalition of capitalists and communists in the Congress party. Now it is possible that the rupee was over-valued in 1925, and that, as a result, some hardship was wrought in the early years—but that is past history, and the present fact is that, until the world depression dislocated price relationships everywhere, the price system had become adjusted to the actual ratio, and that any attempt to interfere with it so long as currency and exchange remain in the hands of politicians would be disastrous to India's credit.

The temporary safeguard is therefore essential. But the sub-committee went further than that. "Provision should be made requiring the Governor-General's previous sanction to the introduction of a Bill to amend the Paper Currency or Coinage Acts." It is difficult to believe that

Economic Safeguards in India

a permanent safeguard of that kind is essential, or that it would work unless the Governor-General were given a dual set of financial advisers. The reserve bank, once established, would be an all-powerful check on rash experiments. A government experienced in responsibility would be quick to realise that the amount of taxation necessary to meet Home Charges, which total about £30 million a year, increases proportionately with the depreciation of the exchange. Moreover, it is possible that the 1s. 4d. campaign, backed as it is by the self-interest of a few wealthy speculators, will be defeated by the improvement of India's balance of trade, as protection diminishes imports, and as the gradual withdrawal of British personnel decreases Home Charges; for that would tend to force the ratio upwards rather than downwards. In any case, the ratio is a question for practical bankers, and if only they are put in charge it matters little whether the political authority is Indian or British; the essential conditions are the early establishment of a central reserve bank and a defence against rash experiments meanwhile.

IV. COMMERCIAL DISCRIMINATION

THE most difficult question of all, that of discrimination between different sections of the community in matters of trade and commerce, was inconclusively shelved by the Federal Structure Sub-Committee. The Minorities Committee also dealt with the matter, and the following paragraph was finally included in their report :—

At the instance of the British commercial community, the principle was generally agreed that there should be no discrimination between the rights of the British mercantile community, firms and companies trading in India and the rights of Indian-born subjects, and that an appropriate convention based on reciprocity should be entered into for the purpose of regulating those rights.

It is well that the difficulties of this vital question should

Commercial Discrimination

be realised. One trouble is that the principle of no discrimination entrenches an established order of things. Mr. Gandhi recently described British and Indian industry as the giant and the dwarf—how was it possible to speak of equality between the two? In exchange banking British firms have an absolute monopoly; in coastal shipping, in insurance and other trades they possess a dominating position which it is very difficult for Indian firms to assail; while, although easily the greater part of the capital of the jute mills is owned by Indians, a mill would have great difficulty in exchanging its British managing agency for Indian management.

Indeed, the necessity for discrimination has been officially recognised. Licences for commercial air services, for instance, have been restricted to Indian firms, and the iron and steel industry obtains its bounties and protection only on condition that it is owned and managed by Indians. These existing examples of discrimination, and the patent injustice of establishing present vested interests too firmly, render the formulation of suitable safeguards extremely difficult, and lend point to the Indian case. The Council of the Indian Chamber of Commerce in Great Britain recently issued a statement claiming for India the right to certain forms of discrimination, in the course of which they said: “The amendment of the Company Law, requiring a certain proportion of the capital to be Indian in concerns engaged in certain primary industries, which are specially protected at the cost of the Indian consumer, cannot be classed as discriminatory legislation, against which India could be reasonably expected to offer permanent guarantees here and now.” The statement added that the same might be said of banking and of shipping and shipbuilding.

Thus the force of argument is not entirely on one side. The difficulty is to reconcile the parties by defending the British community against inequitable or vindictive discrimination, while, at the same time, allowing practical

Economic Safeguards in India

scope to India's commercial ambitions and avoiding the consolidation of vested interests. The method proposed at the Round Table Conference was a commercial convention based on reciprocity. But a convention, if it is worth anything, must be subject to periodic revision. Without constitutional guarantees, a commercial convention would be insufficient assurance for British interests ; on the other hand, reciprocity is no solution for the problems arising out of actual inequality. The European Association has also put forward* a scheme whereby certain classes of Bills in India should require the sanction of the Secretary of State, who would be advised by a standing Indian committee of the House of Commons, or of both Houses, as to whether the provisions of any Bill constituted unfair discrimination. Many objections may be raised to that scheme. To be successful, any safeguard must be simple and sure, but the plan proposed has neither of those qualities. No formula is suggested whereby the standing committee could judge whether a Bill was discriminatory within the terms of the constitution or not, or the Assembly know whether its proposals would finally be disallowed.

That, indeed, is the crux of the problem. If a formula can be framed to define discrimination, the application of it becomes comparatively easy, whether by Governor's or Governor-General's veto, or by legal injunction or by commercial treaty. Such a formula cannot be made to cover all conceivable forms of discriminatory action which might injure British trade interests. Indeed the more inclusive the formula the more frequent and more successful would be the attempts to evade it, and the stronger the assault by speech and action against the position that it sought to defend—an assault which sooner or later would be certain of success. So long as the grosser forms of discrimination are banned—such as expropriation without

* See a letter addressed by the Council of the Association to the European delegates at the Round Table Conference, published in the *Review of India*, February 1931.

Commercial Discrimination

compensation, or statutory compulsion upon commercial firms to place their insurance contracts with Indian companies—it is better to trust to good will than to foster bad will. The best defence for British capital and enterprise in India must be their indispensability.

The same is true of all economic safeguards. If now Parliament insists too firmly on the checks that it conceives may be necessary, the law will be evaded, resentment nourished and those policies encouraged—through the sheer perversity of human nature—which the checks are designed to prevent. Certain safeguards that are essential have already been suggested ; for the rest, the wisest policy is to prevent private interests which cannot be identified with the good of India from dominating the new assemblies, rather than to patch up a creaking system of reservations and prohibitions. The surest means of providing economic justice and security in India is the adequate representation of the consumer and the agriculturist.

India.

April 1931.

PRESIDENT HOOVER AT MID-TERM

I. HALF-TERM REPORT

WHEN a President of the United States completes his second year in the White House a review of his achievements has a peculiar interest. He then stands at the half-way mark of his term and by this time has usually made a record which permits a fair judgment of his policies. The end of a President's second year in office also coincides with the expiration of a Congress, most of whose members were seeking the voters' approval at the time of his own election. If the political complexion of the new Congress varies much from that of its predecessor, the second half of a President's term may be markedly different from the first. This was noted, for example, during the administrations of Wilson and Taft. The last two years of each of these Presidents showed a rather abrupt change because of their loss of control over the national legislature, and the present administration may possibly undergo a similar experience.

It is now in order, therefore, to take stock of the Hoover Administration, which reached its mid-term on March 4, 1931. Its first two years have been crowded with events, as the United States, in this brief period, has undergone great social and economic changes. When Mr. Hoover came into office, early in 1929, the country was enjoying what appeared to be the greatest industrial prosperity in its history. Manufacturers were breaking all records for volume of output ; the railroads had been brought to a high state of efficiency ; wage levels were at a new peak,

Half-Term Report

with labor becoming increasingly productive through improved machinery and better industrial organization ; and the purchasing power of consumers then seemed fully adequate for the absorption of the expanding production of the factories. The stock market, meantime, reflecting existing conditions and an anticipation of further economic expansion, was enjoying a boom which, for sweep and duration, was wholly without precedent. Some economists, infected by the prevalent optimism, were proclaiming the advent of a "new era," in which past experience would count for little and past mistakes would not be repeated because of the new understanding of economic fundamentals on the part of industrial leaders. To those who expressed doubt as to the soundness of the business situation and fears of a repetition of past reactions after a period of boom, they had a ready answer : "We have changed all that."

It was Mr. Hoover's misfortune to become identified in the imagination of a large number of his countrymen with all that made for this predicted economic millennium. First of all, there was the legend of Hoover, the superman, sedulously fostered by his admirers and political supporters. During his candidacy they had depicted him as the great engineer who would bring a scientific approach to all the country's problems. They declared that the man who had saved Belgium from starvation and who had served with such conspicuous success as the American food administrator in 1917-1918, and as Secretary of Commerce under two Presidents, was pre-eminently fitted by ability and experience to guide the country to still greater economic and social progress.

In the second place, there was the even more zealously propagated legend that the Republican party, of which Mr. Hoover was now the standard-bearer, was the party of prosperity ; that under Republican Presidents business flourished, while under Democratic Presidents there were periods of hard times. In his speech accepting the

President Hoover at Mid-Term

Republican nomination for the Presidency, Mr. Hoover gave his support to this bit of political fiction by drawing a contrast between the depressed conditions in 1921, when the country had been for eight years under a Democratic administration, and the prosperous conditions in 1928, after seven years of Republican rule. He even cited the millions of radio sets and telephones which had been installed in American homes in this latter period, as if this were a Republican accomplishment. And so, while Mr. Hoover obviously had nothing to do with the propagation of the superman legend, he contributed his bit to the fable that American prosperity always bears the label of one political party.

During the campaign Mr. Hoover was thus presented to the country in the dual rôle of leader of the party whose success at the polls would mean the continuance of prosperity and of a statesman and scientist whose peculiar talents would make even Republican prosperity surpass itself. What effect this had upon the election cannot be determined. There were other issues during the campaign which were less emphasized but may have been equally influential with the voters. Whatever its cause or causes, Mr. Hoover's victory was more complete and decisive than that of any presidential candidate since the Civil War. Receiving a total popular vote of over twenty-one million and a plurality of more than six million votes over his Democratic opponent, Mr. Hoover carried forty of the forty-eight States. Even the so-called Solid South, which for more than half a century had been overwhelmingly Democratic, was rent asunder, with five of the eleven States in this group giving majorities to Mr. Hoover.

The country seemed united as never before in time of peace behind a leader of marked ability and unusual experience in dealing with big problems in both private and public affairs. And no other President had had his opportunity to gain such an intimate and direct knowledge of the needs and aspirations of peoples in foreign lands.

Half-Term Report

Mr. Hoover took office at the flood-tide of his popularity and when the nation's hopes and expectations were at the zenith. Even if the country had remained prosperous, it would have been difficult for him to live up completely to the rôle which was assigned to him by his fellow citizens. Some ebb in the tide was inevitable ; but when the great débâcle in the stock market in October, 1929, shook the whole country, Mr. Hoover suffered unduly because of the marked contrast between what had actually happened and what many had been led to look for under his guidance.

Every period of depression in the United States has reacted unfavorably upon the party in power, and has diminished the prestige of the President regardless of his responsibility for the conditions. So it was with Van Buren in 1837, with Grant in 1873, with Cleveland in 1893, and with Roosevelt in 1907. Mr. Hoover's case offers no exception. His warmest admirers admit that he has undergone a considerable degree of "deflation" in the public estimation, and Mr. Hoover himself is fully aware of this change in popular sentiment.

The result was reflected in the Congressional election of November, 1930. The control of the new Congress is in doubt. In the House of Representatives during the past two years the Administration had an effective working majority which enabled it to offset in large measure the obstructive tactics of the Democrats and insurgent Republicans in the Senate. In the new House the Republican majority has been reduced to one, and there is a possibility that even this may be lost by changes as a result of deaths or resignations before Congress meets in December. In the Senate there is an even balance between the regular Republicans and the opponents of the Administration, and so in neither House can the President during the remainder of his term count on effective support for his policies.

It would be unfair to Mr. Hoover, however, to appraise his administration wholly on the basis of this reaction of

President Hoover at Mid-Term

public opinion. It has frequently been observed that American voters have short memories, and there is reason to believe that a substantial improvement in business conditions in coming months would cause public opinion to swing again in the President's favor. It is not by these fluctuations in sentiment, which correspond rather closely with the swings of the business cycle, but by his domestic and foreign policies and the degree of his success in making these effective, that he is to be judged.

II. INTERNAL AFFAIRS

THE so-called "Coolidge prosperity," to which Mr. Hoover fell heir, had its limitations. When he entered office there were some industries, notably bituminous coal and textiles, which were actually suffering depression. The American farmer likewise had little share in this prosperity. The prices of agricultural products were out of line with those of manufactured articles, and there was a growing tendency in the agricultural districts to attribute this to the tariff. The farmer was beginning to complain that the tariff forced him to buy his necessities in a protected market, and to sell his products in an unprotected market. Perceiving the need of doing something to quiet this discontent, Mr. Hoover, soon after his inauguration, called Congress in special session to devise a new plan of farm relief, and to make a limited revision of the tariff for the protection of agriculture and for the relief of such other industries as were found to be injured by foreign competition.

Farm relief and tariff revision constitute the two major legislative undertakings of the first half of the Hoover administration, and it is mainly by these measures that its domestic policy must be judged. Their examination in some detail, therefore, is necessary in any appraisal of this policy.

Internal Affairs

In submitting to Congress a program for the relief of agriculture, Mr. Hoover insisted upon its adherence to "certain vital principles," in order that "we may not undermine the freedom of our farmers and of our people as a whole by bureaucratic and governmental domination and interference." Among these principles he cited the following :—

- (1) There should be no buying or selling or price-fixing of farm products through any government agency ; (2) there should be no lending of government funds where credit is already available at reasonable rates ; (3) there should be no activity which might stimulate a further increase in surplus production ; (4) there should be no undermining of private initiative.

Congress responded by passing the Agricultural Marketing Act, under which the Federal Farm Board was established. The chief purpose of this measure was to promote orderly marketing through the development of co-operative organizations among different groups of farmers. President Hoover selected the members of the Federal Farm Board with great care and enlisted the services of several men of exceptional ability. It was generally realised that the board faced a novel and difficult task, and that it would be subjected to tremendous pressure from politicians, farm organizations, traders and others who wished to exploit it for their own ends. Within a few months it became evident that the board was unable to resist such pressure, and by October, 1929, it had developed a policy wholly at variance with the "vital principles" upon which Mr. Hoover had insisted. It announced that, in its opinion, the current prices of cotton and wheat were too low, and that it would make loans to the cotton and wheat co-operatives, out of a fund which Congress had provided for this purpose, at a rate equivalent to approximately the market value of the products held by these co-operatives on behalf of their members. Under this arrangement a farmer belonging to a co-operative organization would be able to obtain an advance payment up to the

President Hoover at Mid-Term

current market value of his crop, while the co-operative held the product in the expectation of an improved demand.

The board thus gambled on the chance that prices would rise. But instead of this prices declined, and the co-operatives could not sell their holdings for enough to repay the advances made to them. The board then resorted to a provision of the Agricultural Marketing Act whose full significance seems to have been little suspected by Mr. Hoover at the time the law was passed, and through its subsidiary "stabilization corporation" began to buy wheat held by the co-operatives at a fixed price above the current market. For a time it confined its purchases to wheat, but later it extended its operations also to cotton. In February, 1930, the board went a step further and entered the open market as a buyer of wheat in order to give further support to the price. As a result of its policy, by the spring of 1931 it was the holder of approximately 250,000,000 bushels of wheat and 1,300,000 bales of cotton. It had now violated every one of Mr. Hoover's canons, and yet throughout its operations he did not repudiate its program.

The policy of the Farm Board in using a huge fund from the United States Treasury to support the price of cotton and wheat at an artificial level was severely criticised in the industrial East. Among the farmers themselves, who were supposed to be the beneficiaries of this program, the policy likewise was none too popular. The Farm Board's efforts to effect a curtailment of wheat production aroused resentment in those western States where wheat is the principal crop, and where, because of peculiar climatic or marketing conditions, a substitute does not appear to be very practicable. Among the cotton growers there was also dissatisfaction because the board did not prevent a sharp recession in prices, and it is felt that the cotton now in its hands and hanging over the market is constantly exerting a depressing effect on the price.

Internal Affairs

Meantime the board has announced that it will resort to no further buying of farm products. Its large holdings of wheat, which it proposes to market abroad, are now a matter of as much interest to Europe, perhaps, as to the United States. It is still possible that the board, through a process of trial and error, may finally develop a constructive program for the benefit of American agriculture, but during its first two years it has done more to demoralize the markets than to promote orderly distribution, and its achievements have brought little credit to itself or to the Administration.

In the case of the tariff, the story is somewhat similar. The main purpose of tariff revision was also to be the relief of agriculture. In addition, certain changes were to be made in the duties on manufactured products to meet new developments in world economy since the passage of the tariff law of 1922. Mr. Hoover prescribed a test for determining whether the revision of an industrial rate should be made. He urged that there should be no new basis of protective duties, but that rate changes should depend on "whether there has been a slackening of activity in an industry during the past two years and a consequent decrease of employment due to insurmountable competition in the products of that industry." It is hardly necessary to explain how completely Congress ignored this limitation. Democrats, though ostensibly belonging to the low-tariff party, vied with their protectionist Republican colleagues in advancing the duties on commodities in which their constituencies were interested. The Bill was before Congress for fourteen months, and its consideration was attended with all the lobbying and log-rolling which are the usual accompaniment of tariff legislation in the United States. The measure which finally emerged was far removed from the original proposal of a tariff limited to the relief of farmers and of a few industries depressed by foreign competition.

Mr. Hoover again quietly ignored this disregard of

President Hoover at Mid-Term

principles which he had proclaimed at the assembling of his first Congress in April, 1929. On signing the Bill he laid special emphasis upon the flexible provisions as a means of correcting any inequalities which may have found their way into the measure. He called attention particularly to the provision for a reorganized Tariff Commission with new powers for administering the flexible provisions of the law. Under the previous tariff law the so-called flexible provision had been administered in such a way that the duties were advanced four or five times as frequently as they were reduced. Moreover, the reductions were confined to articles or commodities of relatively little importance.

The Tariff Act of 1930 broadened the Tariff Commission's powers and provided more adequate compensation so that a higher grade of personnel might be obtained for this body. The commission as thus reorganized has not been in office for a sufficient period to justify any verdict upon its work. Whether Mr. Hoover will be able through it to achieve much in the way of a really scientific revision of the tariff without the further intervention of Congress is something for the future to disclose. It cannot be said that the new tariff has enhanced the President's popularity. Within his own party there is a growing conflict between the economic nationalism of the smaller industrialists and the economic internationalism of the financiers and mass producers, whose prosperity is coming to depend more and more on freedom of commerce with the rest of the world. Many of the great bankers and captains of industry have been outspoken in their criticism of the tariff and also of the President for allowing Congress to run away from him on this issue.

In dealing with other important domestic questions, the President has likewise encountered considerable difficulty with a recalcitrant Congress. On most of these matters, however, he has shown much more combativeness than he did when Congress was considering farm relief

Internal Affairs

and the tariff. This was in evidence, for example, when the World War Veterans' Disability Pension Bill was before Congress. The question at issue was whether the country should continue to limit its compensation to veterans who were suffering from wounds and diseases incurred during the war or whether it should extend its aid to others who had become disabled after the war from causes not connected with the military service. Congress in June, 1930, passed a Bill which would have provided many thousands of former soldiers suffering from disabilities recently incurred in civil life with the same compensation as is given to those injured in actual service.

President Hoover promptly vetoed this measure, and at the same time he accepted a compromise Bill making an honest distinction between civil and military disabilities but opening the door for a general pension system for veterans of the World War, and thus threatening a repetition of the financial waste and political jobbery which have characterized earlier systems of military pensions in the United States. Congress had already made generous provision for the compensation, rehabilitation, and hospitalization of those who were injured during the War and also had provided aid for their immediate dependents. It had been hoped that these measures and the insurance and adjusted compensation available to all who had enlisted in the military service would enable the Government to avoid the adoption of a general pension system for veterans of the World War, but this new legislation means virtually an abandonment of that sound policy.

The President also displayed courage in vetoing the so-called bonus loan to World War veterans, in the face of the certain over-riding of his veto by a two-thirds vote of both houses of Congress. He was likewise ready to take the unpopular side against a direct appropriation for the purchase of food for those suffering from the prolonged drought in the south-western States. The President regarded such an appropriation as a dole from the Federal

President Hoover at Mid-Term

Treasury which would establish an unfortunate precedent, and insisted that Government aid should be confined to loans for productive purposes, such as for the purchase of seed, fertilizers and feed for farm animals, while the relief of individual distress should be supplied by private philanthropy. In this instance he triumphed over the politicians, although the victory was a negative one.

In dealing with immigration, President Hoover early in his term urged Congress to repeal or postpone the legal provision basing the immigrant quotas for various countries on the so-called national origins plan, which was to become operative on July 1, 1929. This plan materially reduced the quotas of Germany, the Irish Free State and the Scandinavian countries, and increased those of Italy, Great Britain, Austria, Belgium and Poland. The President believes that restriction has proved a sound national policy, but he criticized the national origins basis as not achieving the real objective, which was the adaptation of immigration to the national setting and the national needs, with due regard to the fitness of the individual immigrant as to physique, training and potential service to the country. His efforts, however, to obtain the repeal or postponement of the national origins provision were futile. As a temporary measure, due to conditions of unemployment and the danger of many newly-arrived immigrants becoming public charges, the Administration ordered the offices issuing visas to emigrants to withhold them from all applicants likely to fall into the dependent class, and as a result the average number of visas per month dropped from 24,000 prior to these restrictions to about 7,000 at the end of 1930.

In any survey of Mr. Hoover's domestic policy it is impossible to avoid mentioning the vexed question of prohibition. Public opinion classes the President as a "dry," though he has never indicated that his mind is closed to suggestions for a modification of the law. He laid great hopes on an investigation of prohibition enforce-

Foreign Relations

ment by the so-called Wickersham Commission, but the findings of that body were so contradictory that they left the problem more confused than ever, and prohibition is certain to be an important issue at the election of 1932.

Mr. Hoover perhaps showed at his best immediately after the stock market panic of October and November, 1929, when he summoned to Washington the leaders of finance, industry, agriculture and labor, and obtained their cooperation in the adoption of measures for restoring confidence and mitigating the effects on general business of the disturbances originating in Wall Street. By this action he undoubtedly prevented a worse recession in business. It is in conferences of this sort, rather than in exercising aggressive political leadership, that Mr. Hoover excels.

III. FOREIGN RELATIONS

IN this we may also find the reason for the relatively greater effectiveness of his administration of foreign relations than of domestic affairs. The country reacted favorably to his conversations with Prime Minister MacDonald preparatory to the meeting of the Naval Conference in London. The President also showed excellent judgment in choosing men of the calibre of Secretaries Stimson and Adams, Senators Reed and Robinson and Ambassadors Morrow, Gibson and Dawes to represent the United States at that gathering. While the outcome of the conference was not in accord with American hopes, Mr. Hoover showed good judgment in cementing the gains by summoning the Senate in special session to ratify the three-Power agreement.

In dealing with Congress in the matter of the World Court, the President has not been equally aggressive. Public sentiment in the United States appears to be strongly in favor of American adherence to the court. A survey of the editorial standpoint of daily newspapers showed that more than 1,300 were favorable and only 265 were

President Hoover at Mid-Term

actively opposed to adherence. On December 10, 1930, the President sent a special message to the Senate submitting for its consideration the protocols for the adherence of the United States to the court, but making no specific recommendation that it should ratify them. About a week later the Senate Committee on Foreign Relations voted that consideration of the question of the World Court should be postponed for a whole year. This action may have gravely endangered the prospect of American adherence, inasmuch as the next Congress will be largely absorbed with questions involved in the Presidential campaign of 1932. There were good reasons, therefore, why the President should have called the Senate in special session immediately after the end of the regular session on March 4 to consider this issue without the entanglement of domestic politics. He would then have followed the same procedure as resulted in the ratification of the London Naval Treaty, and he seems to have missed an opportunity of rendering effective service to the cause of international conciliation.

In general, the attitude of the Hoover Administration toward European questions has been the traditional one of American aloofness. In his pronouncement on Armistice Day, 1929, in favor of the immunity of food ships from seizure in time of war, Mr. Hoover showed a flash of that talent for world leadership which many of his countrymen had been looking for, but on the whole he has shown little inclination to make the United States exercise its potential influence in world affairs. This was emphasized when the Young plan of reparation payments was under consideration in 1929. American financiers played a leading part in bringing about this new settlement, but they participated in the deliberations as individuals and not as spokesmen for the American Government. The Administration undertook repeatedly to make it clear that the payment of reparations by Germany was wholly disconnected from the payment by the allied nations of their war

Foreign Relations

debts to the United States. It even went so far as to negotiate a separate arrangement with Germany, whereby the small amount which the United States was to receive under the Young plan would be paid directly by the Reich without passing through the Bank for International Settlements.

In its desire to avoid even the appearance of any new commitment the Administration, through Secretary of State Stimson, announced on May 16, 1929, that it would not "permit any officials of the Federal Reserve System either to serve themselves or to select American representatives as members of the proposed International Bank." It may not be necessary here to point out that neither the President nor any other Government official has any legal jurisdiction over this matter. The Federal Reserve Banks are not Government institutions. Their stock is owned by the individual banks which are members of the Federal Reserve System, and two-thirds of their directors are chosen by the stockholders. Obviously, no Federal Reserve bank would participate in any operations of the Bank for International Settlements if Washington indicated its objections, but in announcing what the banks would not be permitted to do Secretary Stimson clearly went beyond the Government's legal powers.

In his conduct of Latin American relations Mr. Hoover has taken a position which shows much promise. His goodwill tour of Latin America was largely neutralized when he later accepted the new tariff Act. On the other hand he has done much to improve the personnel of the diplomatic service in Latin American countries. Most important of all, Secretary Stimson has specifically repudiated the doctrine developed under several previous administrations which assumed that the recognition of a revolutionary Government involved the moral approval of its acts. The Government of the United States has now reverted to the historical practice of recognizing promptly any Government which appears to be in full political

President Hoover at Mid-Term

control and promises to fulfil its international obligations. In accordance with this principle the United States quickly established diplomatic relations with the new Governments of Argentina, Bolivia, Peru, and Brazil.

The Administration has also announced its purpose to withhold shipments of arms to rebels without the status of belligerents and to permit such shipments to recognized Governments. In the case of Mexico this policy was applied in 1929 with satisfactory results. In the case of Brazil, however, in 1930, the Administration chanced to place an embargo on shipments of arms to the revolutionary faction which it subsequently recognized as the *de facto* and *de jure* Government. The Administration was evidently observing its treaty obligations, but there were unusual circumstances of which it did not seem to be informed, possibly because of the temporary absence of the American ambassador from Brazil. On the whole, the reversion to the traditional recognition policy promises to remove one of the principal causes of friction between the United States and the neighboring republics to the south and to make these countries less suspicious of American motives.

IV. THE NEXT TWO YEARS

PROBABLY no other President in time of peace has had to deal with so many difficult problems in so brief a period. And the troubles do not seem as yet to be at an end. On June 30 the Treasury faces a prospective deficit of \$1,100,000,000, an amount far in excess of the total yearly expenditure in the pre-war period. Then in December the President will face a new Congress in which he can never be sure of a majority in either House for the support of his programs. While the past two years have been hard for Mr. Hoover, there is no assurance that the next two will be appreciably easier. Indeed, they may prove even more difficult. The best hope for a smoother road for the harassed President lies in the betterment of

The Next Two Years

general business conditions. Not a few observers of political trends are convinced that with a strong upturn in trade and industry there will be as pronounced a reaction in his favor as there was against him during the recession.

On the other hand, less friendly observers point to the President's lack of political-mindedness, to his inability or unwillingness to "dramatize" himself for the benefit of the American public and to his failure to inject new vigor into his party after the manner of Roosevelt or Wilson. They aver that these deficiencies prevent him putting his many other great qualities to their most effective use as the nation's chief executive. Mr. Hoover's career at the White House has convinced them that the country needs a combination of politician and business man for the Presidency. They attribute his failures in large measure to his unwillingness to employ politics as one of the tools of his trade.

There are still others who see in the President a growing militancy and a readiness now to fight the politicians in Congress with their own weapons ; to go over their heads if necessary and take the fight directly to the people, as some of his predecessors had a way of doing. They predict that during the next two years the country will see a different side of Mr. Hoover as an executive, and that he will demonstrate that his past failures have been due to conditions more or less fortuitous rather than to his own shortcomings. In any event, the next two years will bring the crucial test, and the President will have ample opportunity to demonstrate whether his recognized ability in the administration of private business and of a government department can be employed with equal effectiveness in guiding the destiny of a powerful nation. How he meets this test will determine whether the American people will give him a second term.

The United States of America.

May 5, 1931.

CHINA

I. CURRENT EVENTS

IN our last article General Chiang Kai-shek, President of the Government, T. V. Soong, the Minister of Finance, Feng Yü-hsiang, the rebel leader, and Marshal Chang Hsueh-liang, the Manchurian dictator, were selected as the persons most likely to claim attention in the year before us. The course of events has since brought into the centre of the stage the President of the Legislative *Yuan*, Hu Han-min, who in politics seems to be cast for the rôle which Feng Yü-hsiang has played in war. He is one of the oldest and most influential of the Kuomintang leaders, and also one of the most uncompromising. He has held himself strictly aloof from Shanghai, and has publicly rebuked some of his colleagues for visiting that city too often. But Shanghai is the focus of China's relations with the rest of the world. His want of recent touch with that world may help to explain one of the incidents which has led to his resignation.

In America, Senator Pitman of Nevada has been urging that a large quantity of silver should be offered as a loan to the Chinese Government. In the interest of the silver producing States, a certain Judge Linebarger has been trying to establish an agreement on the subject between Washington and Nanking. His scheme for a silver loan was publicly rejected by Mr. Soong. Judge Linebarger, however, claimed that he had written authority from Hu Han-min to negotiate the loan. Conflicting statements as to the personal attitude of other members of the Govern-

Current Events

ment of Nanking were published. Judge Linebarger's son, a lad of seventeen, interviewed a majority of the Ministers of State, and published accounts of what had been said to him. This interference by Hu Han-min and his group in a sphere which properly belongs to the Minister of Finance and the President of the Government has created a schism. The results have been seen in other and graver matters.

In our last article it was mentioned that the Fourth Plenary Session of the Central Executive Committee, which opened in Nanking in the second week of November, had decided that a National Convention should be held in May. When the Plenary Session was adjourned on November 21 a manifesto was issued which contained the following statement :

At the forthcoming Convention all fundamental problems relative to reconstruction of the State will be laid before the people so that the strength of the entire nation may be centred upon this important task, the foundation of a government "of the people, by the people, for the people," laid down, and finally, the responsibility of the Party in the period during which it will exercise the political powers on behalf of the people defined and clarified. The date of the promulgation of the Constitution will also be decided upon at the Convention so that the time for the reversion of the political powers back to the people may be definitely fixed.

The words of President Lincoln are worn so threadbare that we are apt to miss their significance in this manifesto. It should be remembered, however, that Dr. Sun chose the formula "government of the people, by the people, for the people" as defining the goal towards which he directed his followers. One must also reflect that Mussolini, Lenin or Stalin would never have used that formula for a similar purpose. Dr. Sun was just as sincere as Washington or Lincoln in regarding popular government as the end and object of the movement he founded. But he knew as well as the self-styled realists the difficulty of attaining that goal in a vast country like China accustomed for ages to a government based on divine authority. He therefore

China

proposed that his followers, organised as the Kuomintang, should establish a government for all China, and continue to control it while teaching the people how to control it for themselves. He called this transitional stage the period of tutelage.

After the death of Yuan Shi-kai, the Republican movement had to deal with the Tuchuns or military governors, who, as Sun rightly perceived, were severally hoping to establish themselves as founders of new dynasties. The Kuomintang has so far won in the struggle against them, because it has stood for a principle, while the Tuchuns only stood for themselves. It has in fact established a government at Nanking, which is now recognised by the Powers as the Government of China.

It has naturally happened that certain members of this administration have developed a special aptitude for the tasks of government, while others are more interested in the work of managing and controlling the Party. The danger of a party dictatorship is that the "bosses" can claim to control Ministers who are learning to act and think for the country as a whole.

At the time of writing, the approach of the National People's Convention is bringing this issue to a head. According to the law governing the election of delegates, the members will number 520 apportioned as follows :—

450 to be elected from the various provinces.	12 from Mongolia.
22 from various municipalities.	10 from Thibet.
	26 from Chinese residents abroad.

These delegates are to be chosen by a series of unions, organisations and associations. In point of fact, it is likely that the candidates nominated by the Kuomintang will, in the majority of cases, secure election.

The Convention is to take place on May 5, and attempts to settle the agenda have led to an open rupture between Chiang Kai-shek and Hu Han-min. The former has been in favour of discussing a Bill of Rights, a definite step towards

Current Events

the formulation of a permanent constitution. The latter maintains that this would be contrary to the last will and testament of Dr. Sun Yat-sen. He asserts that the period of tutelage under the Kuomintang prescribed by the founder of the Revolution is not complete.

These quarrels came to a head when Hu Han-min resigned his position as President of the Legislative *Yuan*. The announcement was followed by rumours that Hu Han-min was stricken with illness at Tongshan Hot Springs, and was under arrest. It was presently stated that a strong escort had brought him back to Nanking and that General Chiang had announced that Mr. Hu had decided to live there indefinitely. In the course of a lengthy statement on the subject General Chiang declared, "we also feel that it is better for Mr. Hu to remain in Nanking." He dwelt on the special responsibilities by which a member of the Kuomintang and Government is bound; "by joining the Party and the Government one has voluntarily agreed to limit his freedom of speech and action."

For good or ill, the problems of China largely turn on foreign relations, of which the Yangtze valley, and especially its mouth, are the focus. It is probably more than an accident that the men who have shown the greatest aptitude for public affairs, President Chiang Kai-shek, his brother-in-law, Mr. T. V. Soong, and Dr. C. T. Wang, the Minister of Foreign Affairs, all come from this region.

Mr. Hu Han-min is a native of Canton and that province is the centre of his influence. It is also the nursery and stronghold of the Kuomintang. Behind this controversy it is thus possible to discern a struggle between the Party and its managers, men in whose minds the machine and its power are tending to become ends in themselves, and those members of the Government at Nanking whose experience is teaching them the real necessities of the country at large. The country has been growing impatient of the claim of the Kuomintang to monopolise power. A feeling has developed that the people will never begin to emerge from

China

the period of tutelage, until some instalment of constitutional rights is established. This feeling General Chiang Kai-shek seems to be voicing. He is naturally exposed to the charge of seeking a personal dictatorship as against the dictatorship of the Party prescribed by its founder Sun Yat-sen. The resignation of Hu Han-min is certainly intended to be taken as a protest against the personal power of the generalissimo. The future of China largely depends upon how far Chiang can use that power to achieve for her the goal of self-government as seen by his master Sun Yat-sen. We may hope and expect that he will do so, but if Hu Han-min should be justified in holding that General Chiang Kai-shek is going the way of other military dictators, he will, for all his undoubted ability, end like the rest of them. The day is gone when any military leader could found a stable dynasty in China. It was as the personal secretary of Sun Yat-sen that Chiang Kai-shek emerged from obscurity, and if he is steadfast in pursuing the aim of his great master he and Mr. Soong may do for China what Washington and Hamilton did for the United States.

At the opening of this year the risk of an "annual spring campaign" had for once in a way seemed almost negligible. It is useless to deny that recent happenings at Nanking have again clouded the prospect before the country. The leaders of the Kuomintang have tried to control the government in the interests of the Party and General Chiang has met the attempt with his usual decision. But Canton is already showing signs of serious unrest. There are rumours that the leaders of the Party in its home will call into play the Cantonese divisions employed in restoring order in Kiangsi. Marshal Chang Hsueh-liang is supporting the Government at Nanking. It cannot, however, be now said that the spectre of civil war has been laid for this year.

Finance

II. FINANCE

THE second Annual Report of the Minister of Finance to the Political Council of the Central Executive Committee is a document no less remarkable than its predecessor, and marks the second milestone along the path of financial stabilisation and fiscal reform in China. While Mr. Soong has still to admit a deficit, his report gives ground for hope that the time when China will balance her budget is in sight, for customs and salt duties which furnish the bulk of the revenue show a tendency to increase.

The report gives a good account of China's progress during the year ending March 31, 1931. Mr. Soong explains the continuous growth of his fiscal organisation which really shows, like a gauge, how far the authority of the Nanking Government runs. Turning to the future, he points out that China cannot progress without financial assistance from abroad.

As recognised by our late leader, foreign capital is required for the rehabilitation of the country. Credits are needed to assist in currency reform, debt refunding and public works, which can only be obtained by establishing our finances on a sound basis. Foreign leaders will not seriously discuss loans to China unless China has balanced her budget, or has adopted and is carrying into effect a programme of readjustment which will result in stabilising the finances within a reasonable time.

The report closes with some candid remarks on the departmentalism rampant at Nanking.

Surely a case has been made for discarding the haphazard, unrelated and clashing programmes of the various branches of the Government, and the creation of a really effective planning organisation, which would guide the productive forces of the country, co-ordinate the activities of the Ministries and rigidly map out the essential ends which for a given course of years each of the different components is obliged to pursue. With such co-ordinated and purposeful activity within the Government, whereby it is made a unified and effective

China

instrument to serve the nation, the financial resources available within the country itself for constructive development will prove to be greater than is ordinarily realised. In the final analysis the national budget must not be considered as running for one fiscal year only, nor as a static and mechanical balance between receipts and payments to be brought about through a negative policy of cutting down expenditure. A budgetary policy to be adequate to meet the needs of the time can perhaps be attained only through the adoption of a positive programme of systematic and co-ordinated expansion extending through a series of years.

Such criticism is all the more valuable because it is constructive and comes from within. Nanking has been busy preparing the constitution of a "Supreme Economic Council" consisting of Ministers with Chiang Kai-shek as President and T. V. Soong as Vice-President. Such a project can count on the active assistance of the League of Nations in supplying technical advice. The Nationalist Government has already learned to value such help as experts like Dr. Rajchman and Sir Arthur Salter can give. It is to be hoped that Sir Arthur Salter will publish a report on his visit to China. Chinese and foreigners alike will await with interest the result of his enquiries.

III. RECONSTRUCTION

HOW far and how fast the work of economic reconstruction will proceed throughout China will largely depend on the success or failure of Mr. Soong's policy. A great deal of work is in actual progress, and China gives one the impression of a country which is very much alive. The port and city of Shanghai are busy, with visible signs of construction on all sides. The work of converting Nanking into a modernised city is proceeding at high pressure. The railways are working once more. Throughout the country towns are being reconstructed with widened roads and equipped with mechanical devices and public utilities. In the rural districts roads are appearing, not in miles but in hundreds of miles. Along them cargo and passengers are

Reconstruction

carried by mechanical traction, lines of motion through tranquil fields. Even so the lines of young and vigorous Chinese are threading their quick way through the wide expanse of an older and quieter civilisation.

In the business world this revival of energy is unmistakable. Internal trade, after years of torpor, is reviving in the hands of young men impatient of old restraints and intolerant of custom. They are meeting the new demands which arise for a new manner of living. They are making, buying and selling new things. For the moment they are chiefly concerned with internal trade; but some of them are trying their hand at foreign trade, and are seeking new channels of supply and demand. Merchants to their finger tips, they know how to work on the narrowest margins. The Chinese bankers, who have probably the oldest and most honourable tradition of any bankers in the world, are also learning how to finance trade and industry on modern lines.

In April the Committee appointed in China to deal with the Boxer Indemnity fund held its first meeting. Its task is to use the fund for reconstructing the railways of China and creating a permanent investment for educational purposes. At a time when China's immediate difficulty lies in providing gilt-edge security for her programme of reconstruction, these funds may prove a factor of first rate importance. It is worth considering whether the accumulated fund of £3,000,000 could not be used as security for an international loan to finance projects of railway and educational development on a far more ambitious scale than at present contemplated. In any case the British Boxer Indemnity fund will do much to help China on to her feet.

China

IV. EXTRATERRITORIALITY

MR. WANG has again been insisting that "extraterritoriality" must and will be brought to an end by May 5, when the National Convention meets. The foreign Powers, it would seem, would agree to meet his views, except in the foreign settlements of Shanghai, Canton, Hankow and Tientsin. It is no doubt desired to discuss the future position in these areas separately in the light of the report which Mr. Justice Feetham has been preparing on the status of Shanghai since his arrival there in January 1930. The first part of this report should have appeared by the time that this article is in print.*

V. CONCLUSION

IN casting our eyes over China four months ago, we ventured to say that "there was food for tempered optimism." To-day we can only repeat that opinion. There is apparent peace, and the will for peace is also apparent. The country seems to be on the brink of a new era of financial, railway, and even constitutional, reform. Yet it cannot be said to be past the brink. The authority of the Government does not as yet spread as far as one could wish from the capital. In the north, south and west are provinces which still pay no more than a lip-service to Nanking. The really encouraging factor is the new spirit in which an increasing number of Chinese are facing the problems before them. The younger generation are determined, as never before, to unite their country and restore its prosperity. They will certainly succeed, though no one at the moment could venture to say how long it will take.

* The first instalment of the report was published in Shanghai on April 25, and is summarised in the appendix to this article. It is understood that the second instalment containing the recommendations will appear in June.

Appendix

POSTSCRIPT

Several events of outstanding importance have taken place in China since the above article was written. The People's Convention duly assembled in Nanking on May 5, and passed a constitution which appears to represent a compromise between the continuation of party tutelage and the inauguration of democratic government. On May 4 the Chinese Government announced that the negotiations regarding extraterritoriality between Mr. C. T. Wang and Sir Miles Lampson had been abandoned, and unilaterally proclaimed the abrogation of extraterritoriality; the negotiations, however, were resumed in the following week. Meanwhile, it is reported from Hongkong that a new military disturbance is imminent through the alliance, in opposition to Chiang Kai-shek's Government, of the forces of Kwangtung (Canton) and Kwangsi.—
EDITOR.

Appendix

In 1929 the Municipal Council of Shanghai decided to appoint some expert with the necessary municipal, political and judicial experience, unbiased by any previous connection with the place, to report on the present and future status of the International Settlement. At their request, the South African Government released for this task Mr. Justice Feetham who reached Shanghai in January 1930. The first instalment of his report,* published in Shanghai on April 25, 1931, is a comprehensive survey of the problem in all its aspects.

Publication of the second instalment which contains the recommendations of Judge Feetham is expected in June, and copies of this volume will presumably become available in the same way.

It is understood that a third and supplementary volume will follow.

The first instalment already published is in three parts. Part I is introductory and explains in four chapters the origin, scope and method of the enquiry, and the general arrangement of the report. Part II gives a historical and descriptive account of the Foreign Settlement and its Government, in nine chapters. Part III deals with the business interests centred in Shanghai.

Part I chapter I quotes, amongst other documents, correspondence between the Council, General Hertzog and Judge Feetham, which shows the origin and nature of the enquiry. In chapter II, Judge Feetham states that his task "has been not only to study the actual conditions, economic,

* A limited number of copies have been sent to the agents of the Shanghai Municipal Council in London, Messrs. John Pook and Co., 68, Fenchurch Street, E.C.3, which can be ordered through booksellers (price 5s.) by libraries and others anxious to secure copies for reference.

China

social, administrative and political, in the Settlement itself, and in the areas of Shanghai contiguous to the Settlement, but also to form some general idea of the conditions prevailing in the environment to which Shanghai belongs—*i.e.*, of the background, economic, political and administrative, in the country at large, against which the special problems of Shanghai have to be viewed before they are revealed in their true shape and proportions. Without some appreciation of conditions generally prevailing in China it is not possible either to bring proposals for the future government of Shanghai into due relation with the recognised goal towards which national progress is being directed, or to plan the method and regulate the pace of advance, in any contemplated process of change, in such a way as to give the required protection to the economic interests involved.

“But while it has been necessary to keep this general background constantly in mind, my primary task has naturally been to study Shanghai itself, and more especially to understand the nature and extent of its commercial and industrial activities, the true foundations of its position as a great business centre, and the leading features of the existing regime in the Settlement, and to ascertain, and weigh, the views of the various sections of the community in the Settlement, both foreign and Chinese, who have the first claim to be heard in regard to any plans for its future.”

Part II chapter I briefly describes Shanghai as consisting of three areas: the Foreign Settlement $8\frac{2}{3}$ square miles, the “French Concession” 3.94 square miles, and Greater Shanghai 320 square miles, which surrounds both Settlements. It mentions the roads constructed by the Municipal Council of the Foreign Settlement, beyond its limits in the area of Greater Shanghai. The relations of town to harbour are explained by a map. The physical character of the three areas and the composition of their population are described. In chapter II the development of the Foreign Settlement is traced historically from its foundation in 1843, as a consequence of the Treaty of Nanking. How its use as a sanctuary during the Tai-ping rebellion led to the inclusion of a Chinese population far in excess of the foreigners is explained. The beginnings of municipal government and its development as a neutral area are described. Chapter III gives the history of the “Land Regulations” which are still the municipal constitution of the existing Settlement. This constitution, as now in force, is explained in chapter IV. Chapter V deals with the powers claimed by the Chinese authorities within the limits of the Settlement. It explains the conflict in one area between the foreign administration based on the “rule of law,” and the Chinese administration which has not as yet accepted that Western idea. Chapter VI explains why the Chinese residents were not represented on the Council till recent years. Chapter VII shows that, while the Chinese have contributed more than half of the total revenue, it is open to question whether they have received an equivalent benefit so far as education, parks and recreation are concerned. Chapter VIII describes the scope and organisation of the municipal services. It dwells on the rigid character of the land regulations, the difficulty of making by-laws, and explains the results in practical administration. Public utilities such as water, electricity and trams, are all now conceded to companies. The Council administers police, fire brigade, public health and works and education, and maintains a volunteer corps which is in fact a small citizen army. The organisation

Appendix

of these various services is explained and analysed. Chapter IX deals with the courts of law in the Settlement. While foreigners have to be tried in their own consular courts, Chinese are tried in Chinese courts. The vast majority of criminals are of course Chinese. As noted above, "the rule of law," as understood in the West, is little recognised in Chinese courts, which are subject to constant interference by the Government which appoints them, by military authorities, even by political organisations like the Kuomintang. The difficulties which arise from the conflict between Chinese and foreign ideas of law are illustrated by cases. The security of the Settlement, in contrast to conditions in China at large, is traced to the fact that, in spite of all difficulties, the rule of law is in fact effective in the International Settlement.

Chapter X deals with freedom of speech, publicity and the press. In the land regulations no provision is made to protect members of the Council from the law of slander or libel. The press has been therefore excluded from its meetings, which have assumed the character of a cabinet rather than that of a municipal body. Owing to the prevalence of censorship outside the foreign settlements, the Chinese press has developed little or no influence. The foreign newspapers published under the protection of the settlements, especially in Shanghai, are therefore a factor of first-rate importance. The abolition of "extraterritoriality" would subject these papers to the censorship which has stifled publicity in China at large.

Part III traces the preponderant position of Shanghai as a centre of business to the special position of its foreign settlements. Chapter I explains how the sources of information used were obtained. Chapter II deals with the port of Shanghai and sets out the advantages of its geographical position. The Whangpoo Conservancy Board and its work in dredging the river are described, and shipping statistics are added. Chapter III discusses Shanghai as a commercial and industrial centre. Reports are quoted from British, American, Belgian, French, German, Italian, Japanese, Dutch, Norwegian, Swedish and Danish Chambers of Commerce, and from other industrial and commercial bodies, which tend to show that the predominant position of Shanghai is more due to the comparative security of its settlements than to its geographic position. Chapter IV deals with Shanghai's position as the banking and financial centre of China, which again is traced to the comparative security afforded by the special position of the settlements.

The system of land tenure in the Settlement is dealt with in Chapter V, which describes the special advantages of the consular titles, their accuracy, facility of transfer, and immunity from illegal interference. This has greatly enhanced their value, especially as a security for supporting credit, which is clearly realised by Chinese owners. Chapter VI, with which the published volume closes, points to protection and law as the foundations of security. Protection against external violence is afforded by the armed forces of Treaty Powers either in warships or on shore, and by the volunteer and police forces maintained by the Settlement. The rule of law means "that in the Settlement, speaking generally, the authority of law is upheld, and private rights are respected, and that the Settlement is governed by an executive authority (the Council of the Settlement) vested with powers which are limited and defined by its constitution, and subject, in respect

China

to the exercise of those powers, to the control of courts of law which are independent of itself." Such conditions nowhere exist in China outside settlements. The chapter concludes—"In order to provide in the Settlement these conditions of security, to which so much importance is attached by owners of property and those concerned in the conduct of business and industrial undertakings, it is necessary to solve what have been described as the two main problems of government—the problem of order, and the problem of liberty. No complete solution of these two problems is of course possible, except in Utopia. It is a question of making more or less successful attempts at providing a solution. By reason of the special character of the Settlement regime, as established under existing treaties, it has proved possible in the Settlement, in spite of many difficulties and complications, to provide by international co-operation a more successful solution of these problems than can be attained in China generally under existing conditions. The National Government is taking steps to restore order and make its authority effective in China generally, and is seeking, in the face of immense difficulties, to prepare the way, by its legislative and administrative measures, for the introduction of constitutional government. Meanwhile, owing to the forces available for the protection of the Settlement, and to the fact that in the Settlement the rule of law can be maintained on the basis of treaty provisions, the Settlement is able to enjoy a greater degree of security than can at present be provided in centres under purely Chinese control. The Settlement thus already obtains some at least of the benefits of a constitutional regime, in anticipation of the time when China, having eventually emerged from the present revolutionary period, will set up a constitutional government of her own, under conditions which will enable such a Government to function successfully, and will, at the same time, make its constitutional character a reality. Thanks to the peculiar advantages of its situation in this respect, the Settlement, at the present stage of national development, is able not only to confer considerable benefits on its own large population, and to safeguard the foreign and Chinese interests immediately concerned in its commerce and industry, but also, by functioning as the country's principal business and financial centre, to play a unique and essential part in the economic life of China as a whole."

INDIA AFTER THE CONFERENCE

I. THE CHANGE OF ATMOSPHERE

EVENTS in India in 1930 were certainly spectacular and dramatic, and for three parts of the year the newspapers of the world were full of them. War, of a curious and probably unparalleled kind, appeared to be in progress throughout the length and breadth of a romantic and mysterious sub-continent ; the static civilization of the East was suddenly and at last changing, perhaps disintegrating, as a result of its prolonged contact with the dynamic political forces of the West, and a spirit of nationalism, a demand for coherence, for status, for power, was beginning to animate a heterogeneous oriental population of close on 350 millions of people. To the observer living in the midst of these occurrences, and pre-occupied with the problems of day-to-day existence, they scarcely presented themselves in this colourful light. For they had their origin in causes which had long been apparent to those who know India, but of which the outside world was insufficiently aware, and they thus lacked, to a large degree, the charm, or peril, of the unfamiliar and unexpected. Moreover, a civil disobedience or non-co-operation campaign had been conducted before, at a time when news editors in other countries had reason to be more interested in events nearer home, and it did not appear to have effected very much. There were, indeed, certain features of the 1930 movement—for instance, its extent, the wide-

India after the Conference

spread participation of women in it, and the comparative absence, during the later summer and autumn, of outbreaks of violence such as had occurred in April and May—which, as the year wore on, evoked some surprise. But for the resident in India it is what has occurred during the first four months of 1931—the period which will be covered by this article—that has given far more cause for astonishment and for a re-orientation of ideas than anything that occurred in 1930.

The contrast, indeed, is extraordinary. At the beginning of the year the Civil Disobedience movement was nine months old and still in progress ; there seemed no reason to hope that it could have any clear or definite termination. The majority of the Congress leaders were in jail. Both participants in the struggle were exhausted and exasperated. On the one side, the strain on the local agents of Government, who were exposed to constant abuse and obstruction, and yet required to perform their duties with particular patience and tact, was becoming almost intolerable, and the higher authorities were increasingly exercised, not only with these administrative problems, but also with the financial consequences which must inevitably ensue from an active and prolonged anti-Government agitation, conducted largely by means of picketing and economic boycott, at a time of world-wide depression. On the other side, such few Congress leaders as remained at liberty were finding it more and more difficult to conduct their campaign effectively in the face of the Ordinances imposed by Government, or to maintain the flagging enthusiasm or the diminishing financial support of followers who could see no end to the contributions they were called upon to make for a cause, or at any rate a policy, which many of them but dimly understood. Thus there seemed every reason to suppose that the movement must continue until it gradually petered out in a fog of bitterness and misunderstanding luridly illuminated by outbreaks of terrorism and disorder.

The Change of Atmosphere

So much for the internal aspect of the situation. In London, at the beginning of January, the Round Table Conference was still in progress, and its outcome, like that of the Civil Disobedience movement, still, at the most optimistic estimate, obscure. The remarkably nationalistic speeches made by some of the princes at the opening of the discussions six weeks before, and the rapid emergence of the federal ideal into the field of practical politics had, indeed, at first aroused great interest and almost as great enthusiasm here amongst those leaders of opinion who still believed that, despite the refusal of the Congress party to participate in it, the Conference might yield some practical results, and advance India further along the road to responsible self-government. But subsequent news was not encouraging. After the preliminary wave of optimistic excitement had passed by, the Conference appeared to have lost its bearings in a backwash of doubt and detail ; and beyond this the unsolved communal problem, which had almost disappeared from view during the uprush of the federal idea, gradually raised its head until it became an overshadowing menace in which everything seemed liable to be engulfed. Moreover, the Government's intentions towards most of the crucial matters at issue, such as the question of granting responsibility at the centre, remained almost entirely unknown, and at the turn of the year Lord Reading's famous speech had not yet been made. From the outset of the proceedings in London those in India who believed that the Conference was foredoomed to failure had probably been the majority, and belonged to practically every school of political thought, from the most advanced to the most reactionary ; the unprecedented nature of such an assemblage, its unwieldiness, the vagueness of its programme, the uncertainty of its machinery, and, above all, the fact that the most powerful political organisation in India had refused to have anything to do with it, and was at the time engaged in a kind of war with the established government of the country, were all

India after the Conference

adduced as sufficient reasons for its achieving nothing. And it seemed, at the beginning of 1931, that these pessimists would probably prove right. Yet how incorrect was this estimate of the situation the state of affairs in April clearly shows. The British Government is now in effect committed to formulating a scheme of constitutional advance for this country which many of the most optimistic Indian politicians did not consider attainable in less than a decade, and, as a result, the Civil Disobedience movement has been abandoned, thousands of persons imprisoned in connection with it have been released, the Congress has held its annual session at Karachi, and apparently decided to co-operate with the Government in discussing the details of the impending constitutional changes, and members of the Viceroy's Executive Council, with many other high officials and their families, have been attending garden parties in Delhi to meet Mr. Gandhi and numerous prominent political leaders who spent most of the previous year in jail.

II. THE IRWIN-GANDHI AGREEMENT.

THE first indication of the change was, of course, Lord Reading's speech on January 5. Of the recommendations made by the Simon Commission, those concerning the nature of the central government probably aroused keener critical opposition from Indian nationalists than any others, and that an ex-Viceroy, the leader of the Liberal delegation to the Conference—that is to say, of the party which was known to hold the balance of power in British politics—should indicate his acceptance of the arguments put forward by Sir Tej Bahadur Sapru and others, and agree that a form of responsible government, despite the Commission's different recommendations, should be established at the centre, was immediately recognised to be an event of very great significance. A

The Irwin-Gandhi Agreement

further hint of impending events, to which at the time insufficient importance was attached, was contained in the Viceroy's speech to the members of the Legislative Assembly at the opening of the Delhi session on the 17th. Since the anticipated announcement of the British Government's policy towards the constitutional issue had not yet been made, it was, of course, impossible for His Excellency to comment upon the results achieved by the Conference except in very general terms, but his speech concluded with a careful analysis of the internal situation and a striking and characteristic appeal to Mr. Gandhi, which is so redolent of the atmosphere in which the subsequent settlement seems to have been made that we make no apology for reproducing it.

However mistaken any man may think him to be, and however deplorable may appear the results of the policy associated with his name, no one can fail to recognise the spiritual force which impels Mr. Gandhi to count no sacrifice too great in the cause, as he believes, of the India that he loves ; and I fancy that though he, on his side too, thinks those who differ from him to be the victims of a false philosophy, Mr. Gandhi would not be unwilling to say that men of my race, who are to-day responsible for the government of India, were sincere in their attempt to serve her. It has been one of the tragedies of this time that, where ultimate purposes have perhaps differed little, if at all, the methods employed by some should have been, as I conceive, far more calculated to impede rather than to assist the accomplishment of the largely common end. . . Is it not now possible, I would ask, for those responsible for this policy to try another course that, in the light, on the one hand, of the sinister events in India, and on the other, of the encouragement offered to India by the progress of the Conference in England, would seem to be a more excellent way ?

On January 19 the Prime Minister's declaration of British policy towards India was made, and after that, for a time, events here moved rapidly. There was, of course, the automatic and inevitable outcry from the extremists that the statement was vague, belated and insufficient, but in point of fact few reasonable men failed to appreciate at once the immense and surprising advance which it

India after the Conference

represented upon anything which even those who were not among the sceptics and pessimists had hoped could be obtained. A clamour promptly arose, particularly in newspapers of the Liberal or right-wing Congress school of thought, for the withdrawal of the special Ordinances, and the release of all prisoners arrested for participation in the Civil Disobedience movement, in order that the new state of affairs might be considered throughout the country in an atmosphere of comparative peace and reasonableness. This, of course, was obviously asking more than the Government could give ; but the announcement on the 25th, that all members of the Congress Working Committee then in jail would be immediately released and allowed complete liberty of discussion, was acclaimed by practically all sections of Indian opinion, and did much to demonstrate to the populace at large that really substantial changes were impending as a result of the Conference in London.

On his release, Mr. Gandhi declared that he had come out of jail with an absolutely open mind and was prepared to study the whole situation from every point of view. During the first fortnight of February the Congress Working Committee were assembled in Allahabad. It was known that a telegram had been sent them by the returning delegates from the Round Table Conference urging that they should defer committing themselves to any definite line of action until they had had an opportunity of discussing with Sir Tej Bahadur Sapru and others the implications of what had been accomplished in London ; nevertheless, the impression undoubtedly prevailed at this time that little would be achieved by such delay, and that eventually the Working Committee would refuse to deviate from the tradition of uncompromising obstruction of everything sponsored by Government, upon which the Congress had flourished in the past. On the 6th, however, a large number of prominent delegates from the Round Table Conference, including the Maharajas of Alwar and Bikaner, Mr. Jayakar, Sir A. P. Patro, Sir Tej Bahadur

The Irwin-Gandhi Agreement

Sapru, Mr. Sastri and Sir Phiroze Sethna, reached Bombay and issued a strongly worded and enthusiastic manifesto in which the magnitude and reality of the constitutional advance agreed upon in London were strongly emphasised. Some of them subsequently repaired to Allahabad to meet the Congress leaders. On the 14th it became known that, largely as a result of these conversations, the Working Committee had postponed decision on the constitutional issues raised by the Prime Minister's statement, and resolved that, while Civil Disobedience must for the present continue, Mr. Gandhi should ask the Viceroy for an interview; and when, two days later, a favourable reply was received, the Congress leader left for Delhi. Half the miracle had now been accomplished.

Doubters, however, remained numerous. The discussions at the Viceroy's House were very protracted, and their course so obscure as to give rise to a multitude of conflicting and often fantastic rumours. The astonishment and alarm which were so vehemently expressed in certain sections of the English press at the notion of a *khaddar*-clad oriental ascetic, the leader of a movement avowedly designed to subvert the established government of this country, which was still in progress, remaining closeted for hours with the representative of the King-Emperor amid the splendours of what is perhaps the most magnificent residence in the British Empire, was not altogether absent here. For it was evident that Mr. Gandhi had emerged from jail with his prestige enormously enhanced. Vast crowds attended him wherever he went, his lightest word was listened to with reverence, and in his speeches there seemed to be audible an unaccustomed note of self-assurance and authority; moreover, it was freely alleged by many of his more exuberant followers that it was he alone—not the sycophants and time-servers who attended the London Conference—that, by launching the Civil Disobedience movement, had forced Great Britain suddenly to surrender so much of the political and adminis-

India after the Conference

trative power which, despite persistent Indian demands, she had for decades been struggling to retain for her own enjoyment. It was therefore natural that many should ask themselves—assuming, as was not unreasonable, that the Congress demands were sure to prove more than the Government could safely concede—whether it was wise that the head of the Government, however high-minded and admirable his motives, should allow himself to confer day after day on equal terms with the leader of an anti-government movement when such conduct could do no more than increase the country's belief in the latter's importance.

But when, on March 5, the actual terms of the agreement that had been reached the previous day were announced, the whole atmosphere was transformed. During the next few days, newspaper comments representative of every shade of political thought, and statements issued by a great variety of prominent men, indicated that, except for an apparently small section of irreconcilable extremists, there was no important body of opinion in the country that did not hail the settlement with relief and satisfaction. So great and unanimous indeed was the enthusiasm, that it perhaps struck some of the more detached observers of events as a trifle indiscriminate and overdone; but the element of surprise with which it was compounded largely accounted for this. Up to the last moment, there were few, even amongst those in close touch with the situation, who believed that the discussions were likely to yield material results. The enthusiasm had, moreover, solid justification behind it. From the point of view of the Government it was felt, on the whole, that nothing of really essential importance for the maintenance of its position had been conceded; the Congress claim for an enquiry into alleged "excesses" by the police had not been allowed; no promise had been given for the return to its former owners of property which had been confiscated during the course of the Civil Disobedience

The Irwin-Gandhi Agreement

movement and already sold ; the concession in connection with the free manufacture of salt for private consumption in the coastal regions possibly involved some loss of prestige, but the point had little more than sentimental importance for either side, and the revenues would scarcely be affected ; the cessation of Civil Disobedience and the restoration of the jail population to more or less normal proportions would obviously relieve the local administrations of an immense burden of anxiety and embarrassment ; and the settlement might be expected to enable the country to set about restoring its economic life and thus relieve the Government of some of its alarm concerning the possibility of balancing future budgets. For the non-official Europeans, who are largely engaged in commercial activities, the merits of the settlement were obvious. There has, of course, particularly in Calcutta, been a good deal of criticism—the volume of which has not been fully evident in the newspapers—of Lord Irwin's administration. It was widely considered, particularly during the first few months of the Civil Disobedience movement, to have proved itself weak, short-sighted, and sentimental. But that, after all, in March 1931 was a thing of the past ; there was no use crying over spilt milk ; and it was widely recognised, even by that school of thought which from its unwillingness to trouble itself with the immense constitutional, administrative, and social problems with which the country is confronted, is liable to be dubbed reactionary, that the settlement at least afforded the prospect of better times. And that there is also a more genial and forward-looking school of thought among the European commercial community was amply demonstrated by the remarkably eulogistic letter addressed to Lord Irwin by an important group of the younger men in Bombay shortly before his departure.

The Indian commercial community welcomed the settlement for similar realistic reasons, supplemented by two others. One was that Indian business had, on the whole,

India after the Conference

suffered even greater losses from the Civil Disobedience movement than European, not only because of its somewhat different organisation—generally speaking, it consists of small firms with less ample reserves—but also because of the substantial financial contributions which many Indian business men have made in furtherance of the Congress campaign. It was thus in very real need of a cessation of strife. The other undoubtedly was that supposing, as appeared likely from the terms of the truce, that the Congress were to participate in further discussions in the impending changes and that, in consequence, it should prove possible to whittle away the safeguards for British trading interests outlined by the Round Table Conference, there might be a good chance for Indian firms, under cover of the new constitution, to obtain a greater share in the business activities of the country. As regards the great body of reasonable Indian opinion, which may broadly be summarised as liberal, since it is not committed to the Congress point of view and does not happen to be particularly interested in indigenous commercial activity, its gratification at the settlement was obvious and unqualified. The majority of educated Indians desire in a general way that the status of their countrymen at home and abroad should be improved by constitutional means, but they also desire that their lives and property should be secure, and that the existing order of society should not suffer any violent derangement, and to people of this school of thought the previous year had been a period of extraordinary difficulty. Among them are many who are entitled to consider themselves as strongly nationalistic or patriotic in their ideals as any Congressman; and they therefore suffered considerable mental discomfort from the prosecution and imprisonment of their compatriots by the agents of what they consider an alien government, while at the same time they believe that the whole Civil Disobedience movement was not only unnecessary, but also deplorably rash, in view of the obvious danger, in a country

The Irwin-Gandhi Agreement

so vast and with so diverse, illiterate and poverty-stricken a population as India, that it might become uncontrollable and purely anarchic. The settlement therefore represented for this section of opinion, which numerically is certainly the most important of all, the end of an exceptionally trying period and the inauguration of a new one in which it might be possible, through the activities of their representatives in London reinforced by the effects of Civil Disobedience here, to obtain for India the substance of what her educated classes had been struggling for, and at the same time to keep her safe from revolutionary disorders.

The reactions to the settlement among Congressmen themselves are more difficult to analyse, since, at the time when it was made, so many of them were still in jail. No attribute of this remarkable organisation, however, is more striking, or indeed more significant from the point of view of the future of democratic institutions in India, than the almost unqualified dependence of its multitudinous members upon a handful of leaders ; and it is thus fairly safe to treat the attitude of the Working Committee (so far as it is known) of a few prominent individuals outside it, and of the Congress newspapers as typical of the whole. Unquestionably the agreement was not reached without serious misgivings, and there were, from the outset, good reasons for believing that many of the younger Congressmen were fundamentally opposed to it. The following arguments could be brought forward against it : it would reduce the hold of the Congress leaders upon the country by lowering their reputation for consistency, since substantially less was obtained under it than what had, at various times, been stated to be the minimum Congress demand ; it represented a serious break with past traditions, to which the Congress owed its influence. It would, indeed, almost commit the Congress to co-operation with a Government which it had persistently boycotted during the previous twelve years ; there was a far from negligible danger of its bringing about the disruption

India after the Conference

of the whole organisation, since the younger members were now so wedded to an extremist political philosophy that it would probably prove impossible to hold them to the terms of the agreement or to obtain its ratification at the next plenary session of the Congress ; and by ordering the cessation of Civil Disobedience the Congress was abandoning the one instrument which it possessed for bringing about the collapse of the existing system of government and obtaining power for itself, since once the movement lost its impetus there would be no chance, for a long time to come, of stimulating it into activity again.

On the other hand, the advantages gained under the agreement were considerable. It would have been impossible to keep the Civil Disobedience movement going for ever, the Government showed no immediate signs of collapse, and had immense material resources ; meanwhile funds and enthusiasm were alike running short, and sooner or later popular belief in this particular method of political warfare would die away. Some of the faithful would then relapse into disillusioned inactivity, while others would certainly have resort to the use of the bomb and the revolver. Moreover, it was not clear whether the Congress itself desired to go very far along the path of really revolutionary activity, or, if it did, to what extent it could count on continued support. The rich merchants in the towns were not at the moment much concerned at the agrarian agitation which the Congress had set on foot, but it could not progress very far without affecting them, and the other propertied classes were already contemplating these tendencies with an anxious eye. Nor could the political affinities of the "Youth Leagues" and similar bodies attached to the Congress be viewed with equanimity by members of the older generation ; the frequent use of communist symbols and phraseology, and association both with labour organisations and with at least potential terrorists, was indicative of an attitude far in advance of anything that the average Congressman could be expected

The Irwin-Gandhi Agreement

to tolerate except for a very short time and as a matter of expediency. Again, there was no getting away from the fact that something really substantial had been achieved in London—something indeed so like what the Congress had itself been clamouring for until only a few years previously, that to have affected to pass it by as a matter of no account would have played straight into the hands of hostile critics who alleged that the Congress was a purely obstructive organisation, inherently incapable of taking a statesmanlike view of affairs. If the possibilities opened by the discussions in London were ignored, the delegates back from the Conference would, moreover, get all the credit for any measure of constitutional advance ultimately obtained, while at the same time, if the Civil Disobedience movement were still in progress, the British Parliament and public would probably take the view that it was not safe to confer any large degree of self-government upon the country. On the other hand, by abandoning the pretence of undeviating consistency and taking a realistic view of the situation, the Congress might well claim that the concessions extorted from Great Britain were primarily the result of its own activities, and by entering into some working arrangement with the Conference delegates it might bring about still further surrenders, and at the same time strengthen its own position and that of the country. Moreover, by calling off Civil Disobedience, the Congress was giving up nothing that would not sooner or later have had to be abandoned in any case ; and now that its members were out of jail it was possible to set about the repairs which its organisation and finances so much needed, at the same time retaining a free hand to initiate another subversive movement should circumstances seem to require it later on. And it was not only practical, or perhaps one should say cynical, arguments such as these that had to be taken into consideration. There was also the question of "atmosphere." Undoubtedly the printed reports of the proceedings in London,

India after the Conference

the accounts given to the Congress leaders by returned delegates, and still more Mr. Gandhi's interviews with the Viceroy, had done much to rid even the most sceptical minds of the mistrust of British intentions which had so long befogged the relations between the two peoples, and many Congressmen came round to the view that the "change of heart" for which they had been clamouring had perhaps really begun. Thus it would, on the whole, be true to say that although the settlement was not welcomed inside the Congress organisation with the same unanimity and fervour as it was in other quarters, it at least afforded grounds for solid satisfaction to a large section.

III. KARACHI

AMIDST all this speculation the preparations for the plenary session of the Congress at Karachi, at which the fate of the Delhi agreement would finally be decided, were proceeding apace, and, as the time drew near, the belief gathered strength that Mr. Gandhi, whose prestige was now higher than it had ever been before, would prevail against the sceptics and the extremists. The one serious danger seemed to lie in the impending executions at Lahore. Bhagat Singh and two other prisoners had been condemned for the atrocious murder of two unoffending police officials in December 1928, and Bhagat Singh himself had also been one of those responsible for the bomb outrage in the Legislative Assembly in the following April. The proceedings, through no fault on the part of the Government, had been unusually protracted, but they were now over and the appeals had been dismissed. In accordance with the recent practice of part of the Indian nationalist Press, a persistent campaign for the glorification of these political murderers had been carried on almost from the outset, and as a result of this incessant adulation they were exalted to the level of national heroes. Frantic

Karachi

pleas for commutation of the sentences were made right up to the last moment, and when, on March 24, it became known at Karachi, where those attending the Congress session had already assembled, that the executions had taken place, the emotion aroused was extraordinary, and it was widely believed that this incident would make it impossible for Mr. Gandhi to secure the assent of the younger and more extreme section of the Congress party to the ratification of the Delhi agreement. It was, of course, peculiarly unfortunate that such an occurrence should coincide with such a crucial session, but, as the Viceroy pointed out in a speech to the members of the Chelmsford Club in Delhi a few days later, it was felt that, if it was inevitable—and no justification for a commutation of the sentences which would not apply to other similar cases could be found—there were sound and obvious reasons why it should take place before the session rather than after.

On his arrival at Karachi Mr. Gandhi was greeted by a hostile demonstration from a group of young "Red Shirt" volunteers, and for the next day or two the atmosphere was tense. Several of the delegates, particularly those from Bombay, expressed strong opposition to the policy of the leaders. Nothing, however, more clearly demonstrated the astonishing hold which Mr. Gandhi had obtained over the whole body of Congress opinion than the actual event, especially when one remembers the difficulty that he had experienced in controlling the extremists at the previous session at Lahore, although nothing special had occurred on that occasion to excite them. For the session which seemed likely to prove the stormiest and most dramatic in the whole history of the Congress turned out to be thoroughly drab and uninteresting. The various resolutions were methodically discussed and passed by the Working and Subjects Committees, and when, on the 30th, the one dealing with the Delhi agreement came before the open Congress, it was passed without a single dissentient vote. It may be that the leaders of the extremist section had

India after the Conference

come to the common-sense conclusion that as Mr. Gandhi had already achieved so much, both for the party and the country, it would be sound tactics, even if one doubted the efficacy of his policy, to support him, at any rate for a time, since any other course would probably bring about the disruption of the whole organisation and the loss of much that had been gained with such difficulty. In any case the miracle occurred. The Congress was now committed to a course of action which almost every competent observer three months before would have considered utterly impossible for it. At the same time it had clearly shown the world that it was by no means lacking in those qualities of sanity and political acumen which its critics denied it.

IV. THE COMMUNAL PROBLEM

SUCH has been the main stream of events. But before concluding this article some of the cross-currents, which are many and dangerous, must be indicated. The most conspicuous and dangerous is, of course, the communal problem, which completely eluded the strenuous attempts at its settlement during the Round Table Conference, and which, despite the endeavours of the Congress leaders here since their release from jail, still remains unsolved. It has indeed become substantially worse during the last month or two. A large number of the politically-minded Moslems were seriously alarmed by what happened at the Round Table Conference. They felt that events might be moving towards the establishment of the Hindu *Raj* which they dread—the unexpected decision of the Indian States to enter a federation with British India particularly giving rise to gloomy reflections, owing to the fact that most of the Princes are Hindus. The policy of the Government of India, moreover, since the conclusion of the Conference, towards the Congress party, which is itself a predominantly Hindu organisation, has not been of a kind to allay their

The Communal Problem

anxieties. The cessation of Civil Disobedience, of course, they considered satisfactory, but the Mahomedan community as a whole had throughout held aloof from it, and it was widely felt that the unconditional release, first of the members of the Working Committee, and then of all prisoners arrested in connection with the movement, added greatly to the importance and prestige of the Congress throughout the country, while the services of the community which had stood by the Government in its hour of need were being totally ignored. The Mahomedan masses are equally restive, for more immediate and material reasons. Their attitude indeed is very like what it was at the end of the first non-co-operation movement nine years ago. For months their daily life has been disorganised by the spectacular activities of the other community; perpetual processions, innumerable acts of obstruction and petty tyranny, and above all the endeavours of the Congress volunteers to persuade small Moslem merchants to alter the ordinary habits of their trade and to observe *bartals* in honour of individuals or occasions for which they feel no sort of sympathy, has given rise to a steadily increasing tide of irritation and resentment. How dangerously tense relations have become is amply demonstrated by the deplorable series of communal riots in the United Provinces, which began on February 12 in Benares, broke out again during March at Mirzapur and Agra, and culminated in the frightful massacre at Cawnpore. At the moment of writing it is impossible to avoid a pessimistic view of the situation. A meeting of nationalist Mahomedans, attended by many eminent individuals, has indeed been held at Lucknow, and passed resolutions in favour of joint rather than separate electorates, arguing that the only proper policy for the Moslems is one of close co-operation with the Hindus, since the members of both communities are, above everything, Indians; but although the trend of events may ultimately favour Mahomedans of this way of thinking, their exhortations can do little

India after the Conference

to improve the situation at the present moment. At the session of the All-India Moslem League in Delhi there were dangerously inflammatory anti-Hindu speeches ; meetings have been held in Allahabad and elsewhere in opposition to the Nationalist Moslem Conference at Lucknow. Mr. Shaukat Ali is touring the country breathing fire and brimstone ; and there is now a rumour that Mr. Gandhi has decided that unless a communal settlement is reached it will be useless for him to participate in the new Round Table Conference. Truly, it looks at the moment as if much of what has been gained for the cause of Indian self-government during the first three months of the year may be lost in the bog of communal enmity.

Then there is the problem of the terrorists. The cult of violence has been growing dangerously for many years, and it was widely believed that one of the chief reasons why Mr. Gandhi, after the stormy session of the Congress at Lahore, decided to initiate the Civil Disobedience movement in 1930, was that he felt that unless he set in motion an anti-Government campaign conducted on non-violent principles, it would be impossible to prevent an outbreak of terrorist outrages on an extensive scale. Throughout 1930 and the early part of 1931 the police have had to be incessantly on the alert, and despite their vigilance a number of deplorable episodes have occurred. And although it is believed that, after their release from jail, some of the more influential Congress leaders approached those in touch with the terrorist movement, with a view to stopping outrages during such a critical phase in the history of the country, the number of incidents which have occurred since the Delhi settlement, for instance, the abominable murder of Mr. Peddie, the derailment of the Delhi-Simla express at the time of the annual move to the hills, and the bomb explosion in Delhi station, show that the danger is far from being allayed.

Equally sinister is the agrarian agitation initiated by the Congress during the Civil Disobedience movement in various

The Communal Problem

parts of the country, particularly in Gujarat and the United Provinces, which it is proving extremely difficult to control. For a country whose population, like that of Russia, consists mainly of illiterate and poverty-stricken peasantry, the perils inherent in such a movement, once it gains any real impetus, need not be emphasised. And the danger is accentuated by the fact that the rural masses happen to be suffering acutely from the catastrophic fall in commodity prices throughout the world—a phenomenon which, of course, they are quite incapable of understanding.

Associated with the difficulties arising out of the economic position of the peasant are those with which the Government itself is confronted in its endeavours to retain some measure of financial stability. As in every other country in the world, the unprecedented commercial and industrial depression last year has had deplorable effects on India's economic life, which have, of course, been rendered still more acute by the repercussions of the Civil Disobedience movement. What will be done in the next year or two to balance the budgets it is at the moment impossible to foresee, but that the country should find itself confronted by financial conundrums of the most serious kind at the very moment when its whole system of government is about to suffer a radical change is peculiarly unfortunate.

Finally, there remains to consider the attitude of two powerful groups—the Princes and the Europeans—towards the crucially important events of recent months. Since the Round Table Conference concluded, little has come to light to show what the ruling chiefs think of the great change in their circumstances to which they committed themselves in London, or of the line which they are going to take at the second Conference which must be held shortly. The whole conception of a federal India remains, indeed, to all outward appearance in the somewhat sketchy form in which the first Conference left it. No doubt a good deal of quite natural hesitation has been felt by certain rulers with regard to some of the implications of the projected partner-

India after the Conference

ship between the States and British India, particularly, of course, over the question whether the attempt to run democracy and autocracy in double harness will prove to the advantage of themselves and their successors. Nevertheless, there is no reason to suppose that the Princes do not, as a whole, mean business, though there may be some delay about it. Certainly, during the brief session of the Chamber of Princes at Delhi in March, there was no indication that the more important and responsible members felt any serious doubts about the wisdom of the step that they had taken, and their election, on the retirement of the Maharajah of Patiala from the office of Chancellor, of the young Nawab of Bhopal, who was among the most active of the States representatives at the Round Table Conference, and who has been constantly in touch, since his return, with leaders of opinion in British India, including members of the Congress Working Committee, seems to show that the Princes as a body have accepted the new policy and mean to make the best of it. Such important figures as the Nizam of Hyderabad, however, have remained ominously silent, and there is no positive evidence yet that the acquiescence of the smaller potentates will be secured for a scheme which must inevitably prejudice their sovereign rights more than those of the great principalities.

The attitude of the European community is somewhat clearer. There has been some attempt to denounce the community's delegates to the Round Table Conference for their agreement to the proposed grant of responsibility at the centre, but it is generally recognised that the inclusion of the States in a federal system weakens the arguments for a "strong" central government, which the European community used in evidence before the Simon Commission, and that the commercial interests of Great Britain in India would lose rather than gain by the adoption of an intransigent political attitude. The spirit of liberalism, shown in the address delivered to the departing Viceroy by a group of younger British business men in Bombay, which has

The Communal Problem

already been mentioned, is to be found among the younger non-official Europeans in other centres also. Officially, the European Association gives its general approval to the results of the Round Table Conference, while laying stress on the absolute need for safeguards to prevent a Swaraj government from tampering with the currency or carrying legislation (on the lines, for instance, of the late unlamented Haji Coastal Shipping Bill) to discriminate against established British commercial interests. The influence which certain wealthy Indians are supposed to possess over Mr. Gandhi, and the recent demand of the Federation of Indian Chambers of Commerce, for a policy of detaching the rupee from its present relationship with sterling, gravely alarm the European commercial community. Its leaders have not yet, however, formulated a definite and complete scheme for embodying in the future constitution of India the defences to which they lay claim.

The community felt somewhat aggrieved at the terms of Sir George Schuster's budget, which were announced on February 28. He proposed to meet an estimated deficit of 14½ crores (nearly £11,000,000) partly by customs increases—including an increase of the general tariff from 15 to 20 per cent.—and partly by additions to income tax. The Europeans claim that they are the most conscientious, as they are the most important, payers of income tax, while imported articles of which they are the chief consumers, such as alcoholic liquors and tobacco, have been subjected to special increases of duty. Sir George Schuster's plans were denounced in Calcutta as unduly favouring Bombay, and as being "a caretaker's budget." Disgruntled, however, as many Europeans are, it is clear that neither they nor the Princes will offer insuperable objections to the scheme of constitutional advance foreshadowed by the Round Table Conference. It is the communal problem that restrains the pace, and threatens even to change advance into retreat.

India, April, 1931.

GREAT BRITAIN

I. THE POSITION OF PARTIES

POLITICAL observers are agreed that in no previous Parliament have there been such swift changes in political probabilities. During the past three months the association between the Liberal and Labour parties, upon which the existence of the Government depends, has passed through every phase, from almost complete estrangement to co-operation which at the moment seems hardly distinguishable from coalition. At the beginning of the period under review, a Liberal amendment to the Trade Disputes Bill was fiercely resisted by the Government, although the Liberals subsequently declared that, in their view, the Government had agreed to it beforehand. The amendment in effect rendered illegal the repetition of the general strike of 1926 for any reason or excuse whatsoever, and was carried against the Government. As the trade unions looked upon the Bill as having lost all its value in consequence, the Government, at their instance, dropped it altogether. The bitterness between Liberals and Labour was extreme, but so quickly did it pass that one is tempted to believe that many Labour members were glad in their heart of hearts to be quit of so questionable a measure. Since then the two have "kissed again with tears." It is true that a further serious snub was administered to the Government when their proposal to abolish university representation was defeated, but it left no sore feelings behind. It was quite legitimately treated by the Govern-

The Position of Parties

ment as affecting their position in the House to a comparatively small extent, and their relations with the Liberals did not suffer. Indeed the Government repaid them good for evil by deciding to press on with the Electoral Reform Bill, a decision symptomatic of a reconciliation which has since ripened into something warmer, no doubt on account of the character of the budget. In consequence, at the by-election in Ashton-under-Lyne the Liberals left the field clear for Labour, and at Scarborough Labour returned the compliment. And this pooling of electoral fortunes has had its counterpart in the sphere of policy. So far as Mr. Lloyd George can count upon his party, he clearly intends that it shall fight, work and vote alongside the moderates who control the Labour party. Nor will it be an altogether unnatural association, for although these moderates pay at all events lip service to doctrines which no Liberal could support, both their actions and their convictions may fairly be described as radical rather than socialist. There are grounds for a genuine alliance between them and Mr. Lloyd George—the prophet of radicalism in the first decade of this century—who is now returning to his first love. The joint policy may be briefly summed up as the defence of free trade, national development by public expenditure, hostility to the House of Lords, self-government as the goal for the various parts of the Empire, direct rather than indirect taxation, and the taxation of land values. The new entente goes back in spirit to the years 1906 to 1910.

The process of creating a left wing *bloc* is, however, by no means so simple as it then was. In the first place, it is unpopular with the electorate, both Liberal and Labour. The average elector cannot understand why the two should fight each other in the constituencies and co-operate in the House of Commons. Successive meetings of Liberal organisations, both inside and outside the House, have also shown the strength of the feeling within the party itself in favour of complete independence; though the

Great Britain

assertion of spiritual independence, if not reflected in action, does not carry things much further. Again, although the Liberal love of free trade undoubtedly helps to hold the party together, the insistence of official Liberalism on a policy of public expenditure at such a time offends many Liberals. Lord Grey and the Liberal Council, for instance, have to decide whether free trade or the avoidance of fresh expenditure means the more to them. Sir Edward Grigg has recently published an appeal to Liberals to co-operate with the Conservatives as they did in 1886. Whether he will meet with the response he hopes for it is impossible at the time of writing to say, but these factors make it hard for Mr. Lloyd George to know how much of his party he really commands. Nor is the other party to the entente free from embarrassment. The Labour party's natural tendency is to favour tariffs, or at least protective measures, as some guarantee against a fall in nominal wages, but, although there have been defections, their official policy is still free trade. The New party, formed by Sir Oswald Mosley, has already fought its first by-election, where it polled nearly 4,500 votes. The essential points in its programme are administrative efficiency and protection, though by other means than tariffs. Its promoters are naturally accused by Labour of treachery, and it may well be that, at the moment, they draw more votes from the Labour party than from the others, for that party is the most disgruntled; but they clearly supply a convenient cave for the disgruntled of all parties, and it is by no means certain that in the long run, owing to the protectionist flavour of their policy, they may not be a thorn in the side of the Conservatives. Again, the refusal of the Government to advance beyond radicalism is bound increasingly to antagonise the Independent Labour party. The "utter despair" of that body, as expressed by its new chairman, Mr. Fenner Brockway, has so far resulted in barks rather than bites. But the I.L.P. was originally the means of breaking up Liberal-Labour co-operation, and it will

The Position of Parties

doubtless try to do so again if it can screw its courage to the point of disregarding the risk of a temporary electoral eclipse.

The prospect of a coalition of the Left has no doubt helped to consolidate the Right, and given a more permanent character to the return of Conservative rebels to the official fold. The by-election in the St. George's division on March 19 was recognised, even by the malcontents, as deplorable. The independent candidate supported by Lord Beaverbrook and Lord Rothermere was beaten, but he polled over 11,000 votes. It was clear that the schism, if persisted in, would prove fatal both to the Conservative hopes of victory at the next general election, and to the policy of the schismatics themselves. The conflict also threatened to bring into the sphere of party politics issues which, by common consent, ought not to be treated in a party spirit. It is unnecessary to look further for the motives which inspired Lord Beaverbrook in calling off the struggle after his negotiations with Mr. Neville Chamberlain. It was agreed that the party policy should be to employ "all or any" methods likely to promote domestic prosperity and imperial economic unity. The real rallying cry of the Empire Crusade and United Empire parties had always been dissatisfaction with Mr. Baldwin's leadership, and Mr. Baldwin himself proceeded to crown the declaration of peace by a series of speeches, including an admirable one in the House of Commons on India, which displayed unusual qualities of leadership. Mr. Churchill, who at one time threatened to push his views on the Indian question to the point of a new schism, has since wisely modified his methods, though not his views. His move has given him an independence of party ties which he no doubt thoroughly enjoys. His main difference with his party is and always has been that he considers a breakdown of Lord Irwin's policy inevitable, and that a policy doomed from the very outset should never have been tried. But even from this standpoint it is now, as he has himself

Great Britain

recognised, useless to deplore the past. For the future he will join with his own party, with Liberals like Lord Reading, and, indeed, with the Government itself, in insisting that there can be no settlement without safeguards. The former probability that Indian policy would cause a break in Conservative unity has become more remote.

II. THE BUDGET AND THE LAND TAX

THE budget was opened late, owing to the illness of Mr. Snowden. Budget figures are misleading, because they include the amount devoted to the repayment of debt, while they exclude borrowing for current expenditure. Thus, when Mr. Snowden announced a deficit of just over £23,000,000 for 1930-31, he did not add that he had borrowed £35,000,000 during the same year for loans to the unemployment insurance fund. But since nearly £67,000,000 was devoted to the repayment of debt, a balance sheet drawn up on the principles of strict accountancy would have shown a real surplus of about £8,000,000. That result in such a year* is no inconsiderable achievement, although it reflects the sacrifice of the British taxpayer rather than any spirit of economy in British governments. A year ago, however, Mr. Snowden budgeted for a surplus of £2,236,000, as well as a contribution of £55,400,000 to the sinking fund. The main reason for the smallness of the final margin, apart from the unexpected cost of unemployment, was a falling off of £13,226,000 in the yield of taxes, of which £6,350,000—the decline in the yield of stamps—directly reflected the dullness of business on the Stock Exchange, and £7,169,000—the decline in the yield

* The total deficit in the budget of the German Reich during the year 1930-31 was close on £54,000,000 (Rm. 1,078,900,000), including £15,000,000 for loans to the unemployment insurance fund in excess of estimates; the French budget showed a deficit during the same period of 2,200,000,000 francs (about £17,600,000), while at the time of the Chancellor's speech the expenditure of the United States government had exceeded revenue by over \$800,000,000 (£160,000,000) during the year ending July 1, 1931.

The Budget and the Land Tax

of customs and excise—resulted from a falling off in the value of internal and external trade. The direct taxes stood up remarkably well to the strain. Income tax, surtax and estate duties totalled only £1,000,000 less than the budget estimate; but it must be remembered that both income tax and surtax were levied on incomes earned during a period which was more prosperous than the present.

For the current year Mr. Snowden estimated that there would be a deficit of £37,500,000 on the existing basis of taxation. This was lower than was anticipated, but the figure was only reached by refraining from carrying forward last year's nominal deficit, by reducing the provision for interest and sinking fund to its level in 1929–30, by leaving out of account (as hitherto) borrowing for the unemployment insurance fund, and by assuming that there would be substantial economies and no supplementary estimates during the year. The alternative courses open to the Chancellor were, either to impose new taxation up to the amount required, or to postpone the day of strict accounting by devices similar to those employed by Mr. Churchill to tide over the results of the troubles of 1926. He chose the second. His budget is admittedly a makeshift, a budget of postponement, and his decision undoubtedly showed personal courage, for he did not shrink from exposing himself to the charge of adopting the very course which he himself had strenuously denounced. He proposes to take £20,000,000 from what appears to be the last of the Treasury hen-roosts, namely, the Exchange Account, which is a sum of £33,000,000 in dollars originally placed in the United States to finance war purchases and since left there as an insurance against exchange difficulties in the payment of the war debt to America. He proposes to find £10,000,000 by calling income-tax payers, other than those liable under Schedule A who have already been subjected to the same call by Mr. Churchill, to find three-quarters of their payments upon the current year's income next January, and one

Great Britain

quarter in July, 1932. Finally, he proposed to raise £7,500,000 by increasing the tax on petrol from 4d. to 6d. a gallon. This is the only increase in taxation and balances the budget, but Mr. Snowden himself warned his audience that the balance would be upset if trade did not improve, or if economies were not effected. The budget is intended to give a breathing space to industry—some of its critics say a breathing space to allow the new entente with the Liberal party to consolidate itself. If they are right, its political object has been more effectually furthered than its industrial object. The budget has given a respite for the moment to those who anticipated a heavier increase in taxation, but it has not restored confidence to industry. For Mr. Snowden is obviously banking on the fruitful issue of the labours of the Economy Committee and the Royal Commission on Unemployment Insurance, whereas the business world will not believe in results until it sees them. Mr. Snowden himself, moreover, had previously expressed a completely sceptical opinion on this very subject.

Assuming then a prospective deficit next year no greater than this one—an assumption which demands an unusual degree of optimism—the Economy Committee will have to suggest savings amounting to £30,000,000 to meet the raid on the Exchange Account and the £10,000,000 anticipated from income tax which together have enabled the budget to be balanced this year. Besides this, even if the Royal Commission should succeed in putting the unemployment insurance fund once more on an insurance basis, the result, far from being a saving to the Exchequer, will probably bring into the budget part of the charge so far met by borrowing—a charge which last year reached £35,000,000 and is this year estimated to reach some £50,000,000. Mr. Snowden himself cannot be accused of disregarding the necessity of looking ahead for other sources of revenue to supplement possible economies. He is precluded by his principles from recourse to tariffs, but he has produced a scheme for the taxation of land values which he has been maturing for

The Budget and the Land Tax

two years. In his opinion the "most important part" of the budget is the proposal to take power to levy a tax of one penny in the pound on the capital selling value of land, a proposal which should strengthen the entente with the Liberals, and will certainly rouse the enthusiasm of a section of his own party which has been growing restive. Its advocates, moreover, credit it with a revenue value almost infinitely elastic, which will enable budgets to be balanced without the aid of tariffs.

Under this scheme all land, except land which obviously has only an agricultural value, is to be valued on the assumption that it is bare of everything except what has been supplied by nature or built by public authorities, but taking into account private roads and one or two other improvements. For the purpose of the valuation, however, the surrounding land is taken in its actual state. This, Mr. Snowden thinks, will enable him to arrive at the normal market value of a site. On that value he proposes to put an annual tax of one penny in the pound, but since the valuation is expected to take 18 months (incidentally it is expected to cost between £1,000,000 and £1,500,000) the tax will not be imposed until the year beginning in April, 1933. The first valuation is to be as on August 1, 1931, and subsequent valuations are to take place every five years. Agricultural land is to be exempt, though the valuers are to assess for taxation any value beyond the agricultural value. The exemptions include the sites of churches and cemeteries, land owned by the National Trust, all land owned by local authorities, sites of hospitals and almshouses, land owned by railways and other public utility concerns whose land cannot be alienated for other purposes, and, finally, all pieces of land valued at less than £120. Since the unit of valuation is to be land in separate occupation, this last exemption will exempt working-class owners of house property. The tax will not apply to minerals.

The principles which underlie the proposal are as follows. It is claimed that the land belongs to the people; that its

Great Britain

value is not the product of any individual, but the result of the growth and progress of the community whose continued expenditure maintains its value. The proposed land tax, said Mr. Snowden, asserts the right of a community to the ownership of land, and the tax is a rent due to the community. The main advantages claimed for it are roughly as follows. It will afford a valuable new source of revenue, and the penny in the pound can be increased if need be without, it is said, adding to the burden on industry. On the contrary, it is contended that it will help it by cheapening land for it imposes on its owners an inducement to sell. The existence of statutes which enable local authorities to acquire land, for instance, the ribbon on each side of a road, and which also oblige landowners who benefit by such public works to hand over part of the betterment, is admitted, but it was pointed out that the Road Board has never had enough money to take advantage of its privilege. The Acquisition of Land Act, 1919, was an improvement on the old Land Clauses Act in that it substituted the market price for the value of expropriated land to the owner ; but it did nothing to reduce the market price as this tax will. As for the betterment provision in the law, owing to difficulties arising out of the necessity of going to arbitration, it is, the Solicitor General pointed out, practically a dead letter. However that may be, there is now a Bill before the House to increase the part of the betterment obtainable from the owner from half to the whole.

But the framers of the measure have more in mind than a new kind of State taxation. They set great store by the preparation of a valuation register for its own sake, apart from any revenue that the tax may bring in. For the register could be used for other purposes—by local authorities, for instance, whom it would, they say, enable to adopt a new and better basis for rating purposes—and further, it would provide a means of checking exorbitant demands by owners whose land is required for public purposes. More than this ; the tax, by increasing the

The Budget and the Land Tax

readiness of landowners to sell, and so making land cheaper, is, it is believed, bound to have a good effect on the housing problem, as it will be easier to obtain land for building. It does not pretend to be an increment tax like one of Mr. Lloyd George's 1909 measures, but it is claimed that, as a stimulus to building, it is better. For that kind of tax, far from encouraging sales of land, tends to discourage them. There was a large drop in the number of houses built after Mr. Lloyd George's pre-war betterment scheme came into force.

The economic advantages are not admitted by opponents of the tax. It is contended that, far from helping industry, it will positively add to its handicaps. Even if a land tax, as was argued, is hard to pass on, that very fact will penalise an owner manufacturer. In any case, the critics ask, does anything justify adding at least £300,000 to £400,000—and probably more—to immediate expenditure this year in order to reap a tax, of which no estimate is given, a couple of years ahead? But whatever the economic advantages, there is a standpoint which cannot be ignored, that of fairness, and most of the objections to the tax are on that ground. It is impossible in an article such as this to deal with all the rights and wrongs of the matter. Many of the criticisms attack particular provisions, some of which may be met by amendment in Committee. It is said that the exemptions do not go nearly far enough. Hospitals, for one thing, get part of their funds from rents, but as only their sites are to be exempt, their revenue would be hit by the tax. It may or may not be possible for schools and colleges to escape lightly by using the Town Planning Act and, as was suggested, getting their land sterilised for any other purpose than the existing one so as to ensure a low valuation; but why, it is asked, should the railway hotel go free, while the ordinary inn across the road—its rival it may be—is taxed? Fault is also found with the method of valuation. Will a valuation as on August 1 next bear any relation to the value two years hence? The

Great Britain

fact, moreover, that private roads are to be taken into account might add thousands to the site value of a garden city. From the standpoint of justice, it is no answer to say that the inclusion of these roads avoids complications such as wrecked Mr. Lloyd George's scheme. The tax has been compared to his undeveloped land duties; but there is really no analogy. Those duties only applied to non-agricultural land not yet built upon; this tax is on such land whether already built upon or not.

But besides criticisms of detail, there is one objection which affects the underlying principle of the scheme. Most of the critics recognise the logic, and even the justice, of taxing increment, as the 1910 increment duties did, however difficult it may be in actual practice, but the present tax is quite different. It is a tax on land. Why should land be treated differently from any other form of property, war loan, for instance, or industrial debentures, or stocks and shares? Even if it were true that the progress of the community has given its whole value to land, the increment is taken into account in every sale that takes place. The purchaser pays its full value. A tax of this kind will not, as a rule, reach the man who has already reaped the increment, and even in the cases where it does, the relation to his gains is accidental. Indeed, it not only discriminates against a special kind of property; it discriminates against a particular class, *i.e.*, all the people who have bought land before its introduction. The man who sold it—a speculator it may be—goes free with the full price in his pocket, and future buyers can take the tax into account in the price they give; but for landowners who happen to have already bought there is no redress. The tax takes so much off the value of their property, operating as a kind of discriminatory capital levy. And this class is a large one. It is reckoned that half the land in the country has changed hands since the war, and the landowners have increased by 50 per cent. They include all sorts and conditions of men. Whatever principle, therefore, justifies such a tax it can hardly be

The Budget and the Land Tax

capacity to pay. It was contended by advocates of the tax that land, unlike most other forms of property, has gone on steadily increasing in value, like Government stock, notwithstanding the depression, and that the case for taxing landowners is as strong as for taxing the rentier. But surely this argument could hardly be applied to land indiscriminately throughout the country. Mr. Lloyd George answered the plea of injustice by citing the practice in foreign countries, but he did not enter into detail. It is to be hoped that this omission will be repaired. The question of the extent to which the considerations which govern municipal taxation, in new as well as in old countries, could be applied to national taxation in a country like Great Britain is certainly one upon which it would be interesting to hear more.

With regard to the plea that the tax would broaden the basis of taxation, it would obviously not do so in the personal sense, for, as land up to a value of £120 is exempt, the burden will clearly fall upon the very class which is bearing the burden of existing taxation. Another question from the point of view of fairness. Income tax cannot apply if there is no income, but this tax applies whether there is income or not. No doubt it is this very thing which forces sales, but an indiscriminate application of the screw to landowners generally, apart from any question of justice, may, as has been pointed out in a letter to the *New Statesman and Nation* from Mr. Keynes and Professor G. M. Trevelyan, lead to very undesirable results in so far as the preservation of rural amenities is concerned.

Such are some of the objections urged against this measure. Strong Liberal support was given to it in Parliament, but criticism has not by any means been limited to the Conservative party. On May 9, the *New Statesman and Nation* had an article headed "A Good Tax Gone Wrong," and the *Economist* regretted that Mr. Snowden should have adhered to traditional methods instead of tackling together the two problems of securing

Great Britain

a substantial proportion of the enhancement of land values which is being created every day by public expenditure upon roads, and of gradually transferring part of the burden of rates from buildings to sites.

III. GENERAL MATTERS

OTHER legislation of the Government has been relatively unimportant. At the moment of writing the Lords have torn the Land Utilisation Bill to fragments, no critic having been more destructive than a Liberal peer, Lord Buckmaster. The provisions for large-scale State farming and the multiplication of State demonstration farms have disappeared and a limit has been suggested for expenditure upon new small holdings and allotments. Lord Hailsham lent some substance to subsequent Labour explosions against the House of Lords by suggesting that the Government should pledge the Commons in advance to waive their privilege upon certain amendments ; but the Lords were no doubt sure of the support of a strong body of public opinion in seeking to prevent the possibility of avoidable expenditure. A town planning Bill has been introduced and seems likely to be largely non-controversial. The full-dress debates in the House, apart from those on the budget, have been as usual concerned with unemployment. Immediately after the Easter recess the Conservatives moved a vote of censure on this subject which was all too clearly a tactical move designed to embarrass the Liberals. The latter refused to be caught, and as a result the Government had an unusually large majority, although their case differed in no respect from that advanced on previous similar occasions. The new Minister in general charge of unemployment, Mr. T. Johnston, had only just taken over his new post ; but he showed no signs of departing from the policy of a programme of public works for the present and of pushing forward industrial rationalisation for the future. Meanwhile the

General Matters

number of the unemployed has decreased by about 80,000 from the peak of over 2,600,000—an improvement which may be only seasonal, but which did not take place during the seasons of 1930 and 1929. The operation of the Coal Mines Act had the curious result of throwing out of work large numbers of miners, towards the end of the first period for which a quota of production was fixed, in those collieries which had exhausted their quota. The trouble passed with the opening of a new period, and seems to have been due to the invasion by some districts of the markets usually served by others. The hours of work fixed by the Act have been proved to involve reductions of wages in certain districts, with the result that those districts have agreed to break the law by working the "spread over" system in spite of the veto of the Miners' Federation. The mining situation indeed remains a dangerous hurdle for the Government. In July the Act of 1926 lapses, and the maximum daily hours of work are automatically reduced to seven. The industry will then presumably again be faced with the gloomy choice between higher prices and more unemployment, or lower wages, or longer hours. The Miners' Federation are strongly pressing the Government to pass a Bill fixing higher minimum wages, and the course has been adopted of forming a joint committee of the Cabinet and of the Federation to draw up a policy. Feeling in the coal fields is undoubtedly despairing—indeed, the Federation at one time actually turned to the Liberals for help instead of to the Government, which probably explains why the Government have adopted so unusual a course to bring them back to their proper fold. After the mining hurdle, there looms ahead the hurdle of the dole, which will have to be faced when the Royal Commission reports. The Trades Union Council have tendered in evidence a scheme to abolish the principle of insurance against unemployment altogether, and to substitute a general scheme of relief to all the unemployed at scales higher than the existing rates of benefit and given on

Great Britain

demand without a means test. This scheme, which would cost on a register of 2,600,000 about £150,000,000 a year, is to be financed by an extra income tax on the whole people, but not exceeding 1 per cent. on incomes up to £250 a year. It has been estimated that such incomes would contribute in all some £15,000,000 a year, so that the burden on existing direct taxpayers would be well over two shillings in the pound. No Government, pledged as this Government is, to preserve the principle of insurance, could even contemplate such a scheme, but the fact that it has been put forward shows the reception which any effective plan for reforming the dole is likely to meet from the Labour rank and file.

It is unnecessary to refer to the situation in India ; it forms the subject of two separate articles. In foreign affairs the negotiations with France and Italy, with a view to adherence to the London Naval Treaty, have reached what appears to be a complete deadlock, a failure, due to no fault on its part, which has robbed the Government of the prestige that attended its initial success, and dimmed the hopes of fruitful results from the Disarmament Conference next spring. Upon the problem of disarmament and its related question of national defence, the other parties have been called into consultation by the Cabinet, and the gravity of the situation is recognised by all. Berlin and Vienna have surprised the world by springing upon it a draft agreement for an Austro-German Customs Union, a proposal which was at once suspected in Paris of masking designs to bring about the *Anschluss* and of being contrary to treaty. This matter, which is now in abeyance until the legal issues have been examined, is more fully referred to elsewhere.

The picture of the last three months, then, at home and abroad, is one of suspense. Nerves in both hemispheres are strained by the continuance of the world depression ; but as regards this subject we must refer the reader to the article with which this issue opens.

IRELAND : EVENTS IN THE FREE STATE

I. POLITICAL

THE Dail's sense of political values is clearly shown by the fact that the most lively and best attended debates of the recent session were those dealing with the Intoxicating Liquor Bill, and particularly with the clause which places licensing restrictions on St. Patrick's day on the same footing as on Sundays. This carries out the recommendations made by the Intoxicating Liquor Commission in 1925, and again in 1929,* on the ground that the enforcement of the present total closing on that day is a reflection on our national character as regards sobriety which is no longer justified by the habits of our people. This total closing on St. Patrick's day was originally enforced by the moral pressure of the Gaelic League about twenty years ago when the old tradition of celebrating that festival by insobriety still existed. This tradition is now happily dead, but the alteration suggested by the new Bill was too valuable an opportunity for our eloquent politicians to lose, and so we have had to suffer several days of interminable debate on this completely trivial question on which an admittedly impartial Commission has twice given the same decision. The clause in question will probably be rejected by one vote in the Senate, as it was in 1927, and that august body, having thereby vindicated both its

* See *THE ROUND TABLE*, No. 60, September 1925, p. 757 *et seq.*, No. 67, June 1927, pp. 583, 584, and No. 77, December 1929, p. 129.

Ireland : Events in the Free State

existence and our national honour, will lapse into its habitual state of legislative acquiescence. The Bill as a whole deals with various minor aspects of the licensing question which ought not to occupy altogether three days of parliamentary time in a normal assembly.

A Bill of much greater importance is that dealing with the position of town tenants which has also been recently introduced but not yet debated. Complaints have been made for many years that the Town Tenants Act of 1906, one of the many ameliorative measures which the Irish party succeeded in passing through the British Parliament, did not succeed in preventing the victimisation of town tenants by unreasonable landlords, and a Commission was set up by the Government in 1927 to investigate the matter and to recommend what changes in the law were practicable and desirable.* This Commission made recommendations of a comprehensive nature to remedy these defects, but also found that no case was made for fixity of tenure as a general principle for all town tenants. It is now over two years since the Commission reported and, although the Bill required careful consideration and involved very complicated legal questions, there is little doubt that these were not the only grounds for the delay which has taken place in its introduction. The Government have clearly hesitated to deal with the question because they are dependent on the vote of the small Independent party in the Dail, which largely represents the landlord element, and which may not support this Bill. The measure, however, contains just and sufficient proposals for dealing with the grievances of the town tenants, and provides not only for adequate compensation but also establishes the right to a new tenancy as the primary remedy in the case of business tenants, tenants of private residences who have been so long resident in the same place as to make removal an undue hardship, and tenants who

* See *THE ROUND TABLE*, No. 66, March 1927, p. 347, and No. 72, September 1928, p. 824.

Political

have executed improvements so extensive that they double the letting value of the tenement. Naturally the various town tenants' organisations have, for once unanimously, agreed that the proposals in the Bill are entirely inadequate and unsatisfactory.

Another important Bill which has occasioned much debate is the Land Bill, the objects of which are, first, to get the appointed day for the vesting of all tenanted lands in the Land Commission fixed at the earliest possible moment, thereby securing to every tenant the commencement of his redemption period and the fullest reduction in his annual payment to which the law entitles him, and, second, to speed up the vesting of holdings, to be resold by the Land Commission to their tenants on Congested District Board estates, and to allottees of parcels of untenanted lands, thus giving these purchasers also at the earliest possible date all the benefits of the annuity system of repayment. As there are over 80,000 holdings remaining to be vested under the 1923-29 Land Acts, which completed land purchase in the Free State on a compulsory but equitable basis, and more than 20,000 holdings on Congested District Board estates to be resold to purchasers, the necessity for simplifying the vesting operations becomes apparent. The new Bill does not alter in any respect the basic financial bargain made with the landlords by the 1923 Act, but provides a new, elaborate system of legal machinery for speeding up the process as far as the tenants are concerned. Naturally the criticism of Fianna Fail is that all this should have been done long ago and that they would have done it if they had had the power. Deputy Derrig, one of their party, did in fact introduce a Bill dealing with the matter in 1929, but it was not clearly thought out or comprehensive and died an early death.

It is clear from the recent speech of Mr. Blythe, the Minister for Finance, at Skibbereen that the Government are seriously considering an alteration of our electoral system, which he definitely stated was one of the greatest

Ireland : Events in the Free State

difficulties that they had to contend with. He specifically referred to proportional representation,* which, he said, had prevented a clear verdict being given in 1923, which would have settled the Treaty issue for good and all and would have enabled the country to get down to work. Then there was the difficulty of by-elections which necessitated tremendous waste of energy and money, and prevented Ministers from maintaining contact with their own constituencies. He indicated that these matters would probably be dealt with in the Redistribution of Seats Bill now under consideration.† Unless the Government can produce some better arguments than Mr. Blythe has done it is hard to see how they can justify the abolition of proportional representation save on purely selfish, political and opportunist grounds. Three elections have been held in the Free State since proportional representation was introduced, and in each election there has been an overwhelming majority for the Treaty. It may in fact be argued conclusively that, but for proportional representation, the disgraceful pact made between Michael Collins and de Valera before the election of 1921 would have prevented the people from giving a decisive opinion on the Treaty at that time, with results that may be better imagined than described. The intervention of independent pro-treaty candidates in that election indicated decisively the real opinion of the country and forced Collins and Griffith to decisive action. This intervention could never have been decisive without proportional representation. Government critics of proportional representation express the view that the existence of intermediate pro-treaty groups like Labour, the Farmers and the Independents prevents the Government from implementing a courageous and extensive policy, but it must not be forgotten that the existence of these very groups has enabled voters who, for a variety of reasons, do not see eye to eye

* See *THE ROUND TABLE*, No. 80, September 1930, p. 828.

† See *THE ROUND TABLE*, No. 82, March 1931, p. 407.

Political

with the Government but desire to uphold the Treaty, to express their views without supporting Mr. de Valera. Indeed, it may be argued that the abolition of proportional representation would give Mr. de Valera's party their best chance of obtaining an independent majority in the near future, and in this respect the Government may well be cutting a stick to beat themselves. It is also to be noted that the Fianna Fail party have so far raised no objection to the proposed change. Under the single member system the Government might easily have been swept away three years ago, instead of remaining in power as the oldest European Cabinet. Even if the Government had increased its strength enormously by the abolition of proportional representation, worse results might well have ensued, because in that event Fianna Fail would never have entered the Dail and would probably have been driven to more extreme courses, whilst the Dail itself would have been an entirely partisan and uncritical assembly. Proportional representation has also saved us from such absurd results as follow the so-called "swing of the pendulum" in England, and has enabled men of critical and independent mind to obtain representation. These results, no doubt very displeasing to the professional party politician, make it essential that proportional representation shall not be abolished without a searching and impartial public inquiry into its working. As regards by-elections, that is of course another matter, and much might be urged in support of the view that casual vacancies might be filled by some simpler and less expensive method.

The tariff of 4d. a pound on butter which was imposed by the Dail on January 22 has had valuable educational results, and the Labour party which represents the working-class consumers in the towns is already clamouring for its removal. Butter occupies a unique position amongst our agricultural products inasmuch as it is the only important item on the list of which the home supplies are insufficient for the requirements of the home market. It

Ireland : Events in the Free State

is true that in a certain period of each year our home supplies of creamery butter are more than twice our home requirements for the year, but there is a period of four winter months in each year during which our home production is only about half our home requirements. The immediate effect of the butter tariff was to increase the price of butter by 4d. a pound, but directly the increased production began in April the price fell 2d., and it is clear that in a very short time when the shortage of home production becomes a surplus the protective value of the tariff will vanish. The tariff, even allowing for relief of taxation, has already cost the country about £250,000, but if it prevents any further experiments of a like nature it may have been worth the price. Even Mr. T. P. Dowdall, a southern butter merchant, who believes and preaches that all our ills, both economic and uneconomic, can be cured by tariffs, has expressed the view that the butter tariff has now served its purpose and might well be discontinued. Mr. Hogan, our very competent Minister for Agriculture, has not been slow to point the moral. Speaking at Cork on April 10, he emphasised the fact that, although tariffs are effective to encourage industrial development, while the process is going on the consumer will, as a rule, have to pay the full amount of the tariffs. In all our agricultural products except butter, there is an immense surplus over and above our requirements, and consequently, he pointed out, tariffs on any of these products would be quite ineffective as tariffs. They would not increase the price and consequently would not conduce to greater production. In a word, they would not protect. The position was therefore that, while the industrialist might get effective protection at the expense of the consumer from industrial tariffs, the agriculturist, as an invariable rule, would not. His sole function in the matter was to pay the greater part of the cost. We had already put a tariff on more than £14 million worth of our industrial imports. A further extension of tariffs to a large number of items, each item inconsiderable

Political

in itself but substantial in the aggregate, would rob the farmer, as consumer, of all the benefits and reductions he had obtained under the various Land Acts since 1881. There was a section, Mr. Hogan added in scathing terms, which believed that a collapse of the British market, which would throw us back on our own resources, was not only imminent but desirable for economic reasons, as it would force us to become a self-contained and therefore a more stable country in which the consequences of world economic fluctuation would no longer be felt. We need not take this infantile point of view too seriously. The people who held it, though mentally incapable of envisaging beforehand the dire consequences in dislocation and misery of such a collapse, would be the first to cry out in distress if it actually occurred. Tariffs alone, the Minister concluded, and especially ill-considered tariffs, never encouraged anything except extravagance and corruption. Without skill and enterprise they were useless. Tariffs were stimulants. Stimulants might be, and in fact were, necessary and useful, but their usefulness was distinctly limited, and beyond a certain point they defeated their purpose and became harmful. The food of industry was skill, economy and enterprise. The reactions to Mr. Hogan's trenchant criticisms are not without humour. The *Irish Times*, for instance, which is the organ of the old Unionist ascendancy and disapproves of every form of tariff in the Free State, warmly commends his views, but at the same time is careful to point out that his arguments would not be valid against Mr. Baldwin's preferential schemes because of their Imperial nature. It is eloquent also of our changed political mentality to find a prominent Minister devoting an entire address to an important economic question, but, as one well-known merchant who was present remarked, it would have been even better if the other side of the question had also been expounded at the same meeting.

The truth is that the people as a whole are utterly sick of arid disputes about the Treaty and the Republic, and

Ireland : Events in the Free State

want to get on with the work of making the country prosperous. A well-known bravo of Mr. de Valera's party recently summarised the situation by the statement that he found his audiences were more interested in bread and butter than in nationality. It is, however, unfortunately true that the small secret society which is determined to revive terrorism and so make government impossible, still continues its activities with apparent impunity. Quite recently a police agent was found murdered in the suburbs of Dublin, and on March 20 Superintendent Curtin, a young Civic Guard officer, was ambushed at night and literally riddled with bullets as he was opening the avenue gate leading to his house, a few miles from Tipperary. Like all uniformed officers of the Civic Guard he was unarmed and therefore absolutely defenceless. A few months before he had been active in rounding up parties on charges of illegal drilling, and it was clearly on this account that he was murdered. He is the tenth Civic Guard to be murdered since the force was established. Although the jury returned a verdict of murder against some person or persons unknown, no one has so far been arrested, nor does it seem probable that anyone is likely to be. The crime was, of course, the work of an organised murder gang, and the facility which the motor car gives for rapid transit makes it probable that the assassins came from a distance, even if the plan was hatched locally. It is idle to ignore the horrible stain which such occurrences leave on our national character. Whilst such things continue to happen one cannot feel that we have yet escaped the curse of Cain or the results of the false moral teaching by which violence and murder were justified or acquiesced in during the Anglo-Irish struggle. Mr. Blythe has recently pointed out that, if the present Government were beaten and if they were succeeded by a Fianna Fail Government, then within one month that Government would be up against a test which it would not be able to go through—the test of the gunman, of the illegal organisations which Fianna Fail has never

Political

clearly condemned, and with which, perhaps, some of the Fianna Fail party have not absolutely broken. If these organisations were to reappear, the guns would be taken out of the dumps, and the local bully would take control. If the Fianna Fail Government were in power, and if it were not prepared to go out and disarm, imprison and, if necessary, shoot the members of any illegal armed organisation, then that Government would last no time, and in its place you would have a little crowd of military dictators who would rule this country, not for the benefit of the people, but for their own aggrandisement. There were two points, Mr. Blythe said, in which he would ask for guarantees from Fianna Fail before they are given power. One was that there should be no government but the elected government of the people, and no army or armed force but the army acting under the law ; and, secondly, that they should make it clear that there was going to be no quarrel with England about anything. It is because no one believes that Mr. de Valera can give either of these guarantees that he is likely to remain in opposition. Meanwhile the present Government continues to maintain and advance the status of the Free State by peaceful and constitutional methods. On March 19 Mr. McGilligan, the Minister for External Affairs, created a new precedent in Dominion procedure by visiting the King at Buckingham Palace in order to discuss constitutional matters of the highest importance, namely, the new procedure to be adopted by our Government in tendering advice to the King and executing documents of an international character. Up to this time, although the King acted in such matters on the advice of the Free State Government, this advice as regards external affairs was tendered through the Secretary of State for the Dominions in London, and the ratification of a treaty was sealed with the Great Seal of England. This procedure caused considerable confusion in the minds of foreign Governments, and in order to remedy this condition of things it has now been agreed that our Government shall advise His Majesty

Ireland : Events in the Free State

direct on all such external affairs, and that all such documents will be sealed with a new seal which will be the property of the Irish Free State and will be struck, kept, and controlled in Dublin. These developments mark another stage in the success of the policy of the Free State Government in bringing constitutional forms into conformity with constitutional realities. As one conversation is worth a hundred letters, there can be no doubt that this intimate connection between the King and his Free State Ministers will be good for both, and will help to place the Crown in its proper perspective as the head of the State. The Free State is in fact no longer a Dominion, but a Kingdom.

Mr. Blythe's Budget is in accordance with expectations, and is clearly the prelude to a general election. Having regard to the recent conclusive majority report of the Derating Commission* against derating, it was obvious that complete derating of agricultural land was both impossible and undesirable. Mr. Blythe, however, asks for a vote of £750,000 for the relief of rates on agricultural land. The relief is to be distributed on the basis of rate assessments for the last three years, and it is to be divided as to 50 per cent. on the old basis of agricultural grants and 50 per cent. on the basis of the population of counties. By this arrangement a bigger grant will, very properly, go to the poorer and more thickly populated areas than was formerly the case. In order to prevent this grant being neutralised by wasteful expenditure it is proposed to reduce substantially the size of the county councils and to introduce a management system for counties similar to that initiated by the Cork City Management Act of 1929, and since extended to Dublin.† This is a reform which has long been essential, as the county councils are the happy hunting ground of inefficient local windbags. The total estimated expenditure,

* See *THE ROUND TABLE*, No. 78, March 1930, p. 369.

† See *THE ROUND TABLE*, No. 73, December 1928, p. 157, and No. 81, December 1930, p. 157.

Political

Mr. Blythe states, is £24,658,150, and the estimated revenue is £24,661,000, leaving a surplus of £2,850. To meet the new expenditure for relief of rates he proposes a tax of 4d. a gallon on petrol, an increase of the tax on talking films from 1d. to 3d. a foot, an increase of the customs duty on sugar from 11s. 8d. to 16s. 4d. a cwt., and an excise duty of 4s. 8d. a cwt. on sugar manufactured from home-grown beet. He also proposes to bring the death duties into line with those of Great Britain. The tax on race-course betting is to be remitted, and the tax on capital companies reduced from £1 per cent. to 5s. per cent. The entertainment tax on personal theatrical performances is abolished, a just and substantial encouragement to the theatrical profession. He stated that the outstanding public debt at the end of the financial year was £29,381,000, against which there were Exchequer assets amounting to £14,100,000. If we continue to pursue a rigid spirit of economy he believes we shall be able to escape all the major difficulties under which so many countries are at present struggling.

Within a few days of each other the Free State has lost its two greatest elder statesmen, Timothy Michael Healy and James Henry Campbell, Lord Glenavy, friends and rivals through half a century. Both belonged to the great line of political lawyers who have at various times graced, and sometimes also disgraced, the annals of the Irish Bar. Both came of humble stock and rose to the highest office in the State, both were stalwart fighters and great advocates, but here comparison ends. Temperamentally and mentally the two men were poles apart. Campbell was a really great lawyer, with a cold polished intellect, the greatest cross-examiner of his day, and a politician who never forgot that opportunity neglected does not return. A Dublin Orangeman in politics, acting as Carson's right-hand man in the South, he had in the end sufficient vision and good sense to accept the new regime and, as Chairman of the Free State Senate, to run considerable risks in its

Ireland : Events in the Free State

service. Healy came from the peasant folk of Gaelic Catholic Ireland. Contrary to popular belief he was not a great lawyer. He was, however, undoubtedly a great, if somewhat eccentric, advocate, which is an entirely different thing, but his emotion always mastered his intellect when the two met. As a politician he was utterly selfless, pursuing what he believed for the moment to be the best course with a tenacity and ferocity that earned him the title of "Tiger Tim." Yet there was about him also a Puck-like quality which delighted in disturbance for its own sake, and no one could ever tell in what camp or under what banner he would emerge. Generally he was a party of one. One leader only, Parnell, claimed his devoted allegiance for long, and with the severance of that friendship came the terrible hatred which made the Parnell split one of the most disgraceful chapters in Irish history, and which even in his closing years disfigured his memoirs. Yet this ferocious politician was in private life one of the most gentle and charming of men, and the fiery political prisoner of the 'eighties became in the end the King's Governor-General and the trusted adviser of the young men who were building the Free State. Irish history can show few stranger metamorphoses, and his career reminds one of that great Earl of Kildare of whom an English King once said : "If all Ireland cannot rule this man he must rule all Ireland." Once, in a moment of deep political emotion, he said : "I'm no man's man but Ireland's," and even those of us who did not always share his views may agree that these words are his best and truest epitaph.

Economic and General

II. ECONOMIC AND GENERAL

ONE of the most serious economic problems at present confronting us is the rationalisation of our national transport system. The essential facts of the matter are simple. The Irish railway system has never been as flourishing as the English, although burdened with exactly similar regulations and wages, and in recent years the competition, first, of the private motor car, and more recently of the motor bus, has reduced its profits almost to vanishing point. Since the Free State was established all the Irish railways, save the Great Northern, have been amalgamated in one system on the basis adopted in England, and this has naturally led to certain simplifications and economies in working. Moreover, the Great Southern Railways, as the new system is called, have obtained a controlling interest in the Irish Omnibus Company, which is the largest bus company in the country. There remain, however, certain smaller bus companies which indulge in wasteful and inefficient competition. The general result is that neither the buses nor the railways give satisfactory or economical service, because there is no traffic route in the Free State which can economically support rival transport services. Speaking at the annual meeting of the Great Southern Railways Company on March 6 the Chairman, Sir Walter Nugent, stated that unless legislation was passed regulating transport and removing the disabilities at present placed on the railways, the companies could not continue to maintain and operate them adequately. Since 1924, the year in which the southern railways were amalgamated, working expenses have been reduced by £1,266,980, but in the same period receipts have decreased by £1,142,679. Excluding wages, which are apparently immutable, the limit to economies has been nearly reached. The capital invested in the

Ireland : Events in the Free State

Great Southern Railways is £26,000,000, and the ordinary stock which stood at over 35 in 1924 is now quoted at 15. It is now only paying a dividend of one per cent., and has practically ceased to be a profit-making concern. It is obvious that this condition of things will continue and possibly become worse, and that the cause is the competition of the uncontrolled and unregulated road transport which is unhampered by any of the rules, restrictions and taxes imposed on the railways. The proper solution seems to the writer to be a State regulated transport monopoly worked by the Great Southern Railways Company. Such a monopoly could co-ordinate and regulate bus and railway services, abolishing the smaller light railways and substituting bus services. Outside the cattle trade, there is little heavy traffic in Ireland, and the main line of the Great Southern Railways, which runs like a backbone through and across the country, should suffice for railway services. Some such arrangement alone will save the railways from disaster and give us an efficient transport system. The Government are understood to be carefully considering the situation, but so far their solution has not been disclosed.

The reports of the Irish banks recently published show an all-over increase of £16,809, and although deposits have decreased by £1,803,937 this is probably due to investments in the National Loan and similar gilt-edged securities which, owing to the low rate of bank interest on deposits, naturally attract investors. It is significant that the only Irish bank which has decreased its dividend is one whose business is almost confined to Northern Ireland, and the inference would seem to be that the prevalent economic depression has affected the industrialised North more than the Free State. The Governments of the Free State and Great Britain are at present endeavouring to settle a banking problem arising out of the dead Irish bank notes which are estimated at about £2,000,000. The Free State Government in the Currency Act of 1927

Economic and General

took legal powers to claim the Free State portion of this money. Under the Banks Act of 1845 the power to issue these notes was given to six Irish banks which availed themselves of it up to 1927. The British Treasury claims that under the Act of 1845 they are entitled to these notes. Clearly they do not all belong to the Free State, as many of them circulated in Northern Ireland. If the two Governments can agree as to the division of the spoils the banks will naturally suffer, and they are understood to be also parties to the negotiations.

The trade statistics for 1930 show that we are at last beginning to feel the world-wide trade depression. The total value of trade in that period was £102,470,705 compared with £109,172,291 in the previous year. The adverse trade balance for the year was, however, only £11,008,343, as compared with £13,431,347 at the end of 1929. The export of live animals represented almost half the export trade and the tractor industry over two and a half million pounds. At present, unfortunately, the Ford factory is practically idle, and these figures are not likely to be repeated this year. Another serious situation has arisen from the dispute between the sugar beet growers in the south-eastern counties and the management of the Carlow beet factory, who propose to reduce the price for beet during the coming season to 38s. per ton—a cut of 8s. on last year's price. This the farmers refuse to accept and, having regard to the bounty paid the factory and the profits already earned, their attitude seems to be justified.

The sweepstake* for the Irish hospitals on the Grand National proved so successful that this institution may be counted amongst our invisible imports and exports. The total receipts were £1,755,963, out of which the hospitals received £438,990, and the prize winners £1,181,815. Most of the tickets were purchased in England, and it is,

* See *THE ROUND TABLE*, No. 80, September 1930, p. 835, and No. 82, March 1931, p. 412.

Ireland : Events in the Free State

therefore, pleasant to record that fifty-three out of the eighty-six prize-winning tickets were also held there. The Irish legal profession is the gainer by the lively legal proceedings instituted against the Italian holder of the first prize by some of his compatriots, who claim to share therein. The next sweep, for the Derby, is already in full swing, and promises to eclipse the previous ones in amount, although happily the prizes are to be much larger in number and much smaller in amount.

A more beneficent Irish institution, also not unconnected with horses, will this year celebrate its bicentenary. This is the famous Royal Dublin Society, which was founded in 1731 for the purpose of furthering "husbandry, manufactures, science and art in Ireland." How well this work has been accomplished anyone who has visited the shows of the Society at Ballsbridge will be well aware. During the last twelve years, largely owing to the intelligent management of Mr. Edward Bohane, its director, the Society has enlarged its membership and increased its activities. At present the roll of membership is full, and there is a long waiting list. Many additions and improvements have been made to the Society's premises, and the anniversary year will be celebrated by extra attractions at the annual shows, the first of which is held this month. Certainly no other single voluntary organisation has done so much to advance the prosperity of Ireland.

The Irish Free State.

May 1931.

general and acquire a commanding position in the world's air traffic. In twenty years only four years will be necessary to establish a network of routes that will embrace the British Empire and a great part of continental Europe, under one general head. In this way, finally, the British Empire will be linked together.

CANADA

I. AVIATION AS AN IMPERIAL LINK

AIRWAYS span the continent of North America, but the employment of aircraft is not limited to established lines. Passengers, mails and expresses are flown regularly day and night from coast to coast, but no published schedules indicate the routes taken by aeroplanes that daily penetrate the far corners of Canada with prospectors, supplies and petrol. The Dominion, despite her scanty population of ten million people, participates energetically in the development of this modern method of transportation, and is steadily extending her air lines to embrace new territory. No country in the world derives better value from aviation than this confederation of 3,684,723 square miles—an area in which the British Isles could be contained no less than thirty times. All the advantages, however, do not accrue alone to Canada: her airways will one day constitute an important link in an Imperial chain, and it is with this end in view that extensions are to-day being planned.

Flying in Canada had its inception on February 23, 1909, when J. A. D. McCurdy flew an aeroplane for half a mile above the ice-covered surface of the Bras d'Or Lakes at Baddeck, Nova Scotia. The machine was designed by a small group of enthusiasts headed by Dr. Alexander Graham Bell, the Scottish immigrant inventor of the telephone and phonograph. With his associates, Dr. Bell developed the "aileron," which is now a standard section in aircraft, though it was Henry Farman who uncon-

Canada

sciously selected the name in a moment of inspiration during a visit to New York that same year. In the summer of 1910, a largely attended air meet took place at Montreal, when Count Jacques de Lesseps, Walter Brookens and Ralph Johnstone thrilled fifty thousand people with exhibition flights. Two records were established at that time, Brookens having taken his machine up to 3,510 feet, and made a duration flight of 45 minutes 20 seconds.

Two decades of flying have passed into Canadian history, but the present era of intensive development dates from 1927, when legislative recognition was given to civil aviation in this country. An Air Board was created in June 1919, to undertake the organisation of aeronautics, and a complete set of regulations for controlling aerial navigation and to prohibit dangerous flying was drafted. In July 1927, four inter-dependent administrative divisions were formed. Control of all military air activities was vested in the Director of the Royal Canadian Air Force, while the administration of operations carried out by State aircraft, other than those of a military character, was placed in charge of the Director of Civil Government Air Operations. An Aeronautical Engineering Department was organised to act in a consulting capacity on technical and engineering matters pertaining to air services, and a Controller of Civil Aviation was appointed to administer air regulations and to supervise flying operations by commercial interests. Various committees were formed subsequently to provide for discussion on matters concerning forest fire protection, surveying and postal services, and to organise an aerial expedition to study ice conditions in the Hudson Straits.

Under such initial stimulus, followed by the organisation of air mail routes and light aeroplane clubs, commercial aviation in Canada made rapid progress. Whereas there were only fourteen firms operating aircraft in the Dominion in 1926, four years later the number had increased to 135 companies and individuals, having an estimated total of 73,000 flying hours to their credit for the twelve-month

Aviation as an Imperial Link

period. Twenty-three light aeroplane clubs brought this figure to 87,500 hours for 1930. The nineteen principal commercial operators, three mining companies and the Ontario Provincial Air Service carried 56,000 passengers and nearly 1,500,000 pounds of freight last year, the distance covered by their machines being estimated at 4,350,000 miles. The outstanding aviation company in the Dominion is Canadian Airways Limited, which comprises an amalgamation formed late last year of Western Canada Airways and a number of operating concerns in eastern Canada. James A. Richardson, of Winnipeg, one of this country's leading financiers, is president and controls at least 75 per cent. of the stock. Both the Canadian Pacific and Canadian National Railways, which hold a proportion of the outstanding shares, are represented by their respective presidents, E. W. Beatty and Sir Henry Thornton, who are vice-presidents of the airway company. By their participation, the two railways agree to co-operate in the development of aviation and airways from the Atlantic to the Pacific, instead of embarking on programmes of intensive competition. There are seventeen branches of civil aviation: passenger and freight transportation, aerial photography and sketching, forest fire protection, fishery patrol service, air mail operations, light aeroplane club flying, aeronautical engineering, aircraft and engine construction, the development of a national airport and airship base at Montreal, the establishment of weather bureaux and the study of meteorology, radio communication and directional beacon services, aerial photography for the topographical survey of Canada, crop and forest dusting operations, mineral prospecting, exploration, sport, and national defence. Canada is also interested in lighter-than-air craft; the present article, however, can only deal with aeroplanes.

The map of continental Canada is traced with a veritable network of lines representing organised airways or special flights; planes having been flown north to Dawson in the

Canada

Yukon ; to Aklavik, at the mouth of the Mackenzie river and 300 miles inside the Arctic Circle ; to Chesterfield inlet, at the north-western extremity of Hudson Bay ; and even to the magnetic north pole in Boothia peninsula and within twenty degrees of the true north pole. Petrol caches have been laid down at strategic positions throughout the northern section of the country. Exploration companies have been formed with their own fleets of planes, pilots, mechanics and prospectors to examine geological formations in which valuable ore is thought to exist. These parties have been almost self-supporting for months on end, small groups being carried rapidly from one locality to another as the immediate possibilities become exhausted. Other aircraft operators have concentrated on the transportation of supplies to established mining camps far from the terminus of steel rails, together with the equipment necessary for sinking drill shafts. Aeroplanes are also being used to bring fish, freshly caught in winter through the ice of northern lakes, to centres of population. All these enterprises assist in the development of territory that for years to come must otherwise have remained far beyond the reach of civilisation. Aircraft, equipped with floats in summer and skis in winter, can descend almost anywhere during ten months of the year, utilising the surface of the numerous lakes and rivers which constitute about 4 per cent. of Canada's area. No part of continental Canada is more than one or at most two days by air from any railway line, a fact which conveys some idea of the service that is being rendered by aviation in pushing the frontiers of civilisation northward. Months were spent formerly in the transportation of mails and supplies by dog sledge or canoe, but the advent of aircraft has made possible enormous reductions in time. The establishment of airways has provided the public with some conception of the aeronautical development of the Dominion, but few Canadians realise even to-day that their country occupies a strategic position on one of the most important arterial air routes of the future.

Aviation as an Imperial Link

Little has been said about this, as government officials have been content to assist in perfecting a transcontinental airway before discussing the possible extension of the system eastwards to Great Britain and westwards to the Orient.

Over 6,500 miles of regular air mail routes have been established in this country, though some are in operation only during the winter months and others only in summer. Early last February, the Atlantic seaboard was connected by air with the Rocky Mountains, and it seemed probable that this line would be extended to Vancouver, on the Pacific coast, during the next few months. Owing to the necessity for strict economy at the present time, however, the Government has practically decided to suspend temporarily the granting of a contract for the carriage of mails over that particular section, although the route has been fully surveyed. Moncton in New Brunswick is the eastern extremity of the existing line, while Calgary in Alberta, among the foothills of the Rockies, is its western terminus, 3,095 miles of airway linking the two. Of this, however, 1,065 miles are over United States territory, American companies having agreed to carry mails, express and passengers between Detroit and Pembina—a small town on the international boundary seventy miles south of Winnipeg—via Chicago and Saint Paul (Minnesota).

The Saint Paul-Winnipeg section of 455 miles, inaugurated on February 3, was the final link in a 12,000 mile aerial chain extending from Buenos Aires, capital of Argentina, to Aklavik on the Arctic Ocean—the longest air route in the world. The United States was willing to co-operate with Canada in the establishment of this transcontinental service, as it seeks an aerial link with Alaska, which is now possible by connecting Fort Norman—200 miles south of Aklavik—with Nome on the Bering Sea. This, of course, is only a prelude to a vaster scheme, the beginning of which was the calling of tenders last December for a transatlantic service between Charleston

Canada

in South Carolina and Lisbon in Portugal via Bermuda and the Azores. Should this route become effective, European mails would be carried to the Far East mainly in American aircraft and through United States territory instead of in British planes operating over an all-red route. Canadians only realised the full significance of this scheme when they learned from the American press that a transatlantic service was being organised by the United States postal authorities in conjunction with Imperial Airways. Much to the disappointment of people in this country, no apparent consideration was given to the possibility of participation by Canada in such an important programme of extensions. Some support has been given to the expedition now engaged in surveying a possible route between England and Canada via Greenland, but the recent design and production of planes with a high cruising speed has for the moment diverted attention to a more practical plan of prime Imperial importance, one, moreover, the initial stages of which can be brought into operation immediately.

Although the establishment of extensive internal air mail services was considered of supreme importance, Canada particularly felt the need for expediting the transport of letters to and from the old country. Express steamers cross the Atlantic each week between British ports and Quebec and Montreal during the summer months, and compete successfully with those which make New York their terminus. Owing to the curvature of the earth, the Canadian route is the shorter by 250 miles, Southampton being only 2,790 miles distant from Montreal as compared with 3,040 from New York. No less than 956 miles of this route, or more than one-third of the whole distance, are within the sheltered waters of the St. Lawrence River and Gulf. It is therefore obvious that aircraft can be utilised to great advantage in accelerating the delivery of mails without flying out to sea. Realising the importance of this fact, the Canadian Government experimented

Aviation as an Imperial Link

in 1927 with a service between Montreal and Rimouski, 315 miles down the St. Lawrence and the point at which ocean vessels embark their pilot and discharge mails. This proved so satisfactory that a regular contract was awarded in May 1928. Air mails were flown to and from the faster passenger liners, and postal authorities reported a saving of between 24 and 72 hours in the time of delivery, and the carriage in 1930 of 53,500 pounds of mail matter.

A further experimental extension was completed last year, when two seaplanes flew nearly 900 miles with half a ton of mails from Montreal to Bradore Bay, in the Straits of Belle Isle near Greenely Island, where the *Bremen* landed in 1928 on the completion of its transatlantic flight. The mail was placed on board the outgoing steamship *Empress of Australia*, which had sailed from Quebec two and a half days previously, and a clear gain of 48 hours in the time of delivery in England was thus effected. This is a logical development of the Rimouski service, and its adoption will leave no doubt as to the superiority of the St. Lawrence route over the one to New York.

Arrangements for the organisation of the Belle Isle-Montreal service on a permanent basis were already well advanced, and the co-operation of the British Post Office assured so that this route would have been self-sustaining within a year of its inauguration, as special postage rates would provide the revenue for working it. But its development has also been postponed for reasons of economy. Eventually a transcontinental air line will be established from Belle Isle to Vancouver, entirely through Canadian territory, the link between Montreal and Winnipeg having already been surveyed. During the six months for which the Straits of Belle Isle are closed by ice, mails could be collected by a large flying boat from ocean liners passing within reach of Halifax and the Nova Scotia coast, which lie close to the track of the principal Atlantic shipping lines, and brought ashore for transfer to fast aeroplanes. All sections of the North American

Canada

continent would be well served by Canadian air lines, the great national air port at Montreal being the terminal point from which mails could be distributed.

Once a Canadian transcontinental airway has been established, arrangements could be made to inaugurate an air service across the Atlantic to Great Britain and over the Pacific to Japan, thus providing a through line from London to Tokio by an all-red route. If it is considered practicable to fly regularly and safely between Bermuda and the Azores, a distance of 2,070 miles, it is not unreasonable to assume that flights could be made between Belle Isle or Newfoundland and the west coast of Ireland, a distance of 1,685 miles, on a prearranged schedule. The northern route is well served with radio stations, and directional wireless facilities could be provided with little difficulty or delay. The southern route is far from ordinary steamship tracks, whereas any plane flying between Belle Isle and Ireland would be within easy reach of one or more ocean vessels. More favourable weather may be experienced over the whole route between Charleston and Lisbon, but the section between Bermuda and the United States is notorious for meteorological disturbances. It is, moreover, rarely appreciated that northern routes are shorter than those nearer the equator, as maps of the world are generally prepared according to Mercator's projection. Suffice it to say that the closer to the poles, the shorter the distance between the parallels of longitude. The distance from New York to London via Belle Isle is 2,361 miles shorter than on the projected route to Lisbon by way of Bermuda and the Azores. The comparison is given in the following tables:—

	Miles.		Miles.
New York to Charleston ..	640	New York to Montreal ..	380
Charleston to Bermuda ..	914	Montreal to Belle Isle ..	956
Bermuda to Azores ..	2,070	Belle Isle to Galway ..	1,685
Azores to Lisbon ..	1,058	Galway to London ..	400
Lisbon to London ..	1,100		
<hr/>		<hr/>	
Total	5,782	Total	3,421
	642		

Aviation as an Imperial Link

To obtain a clear conception of Canada's position on the air route between England and the Far East, it is necessary to examine the Pacific section. The distance from Vancouver to Tokio is 4,520 miles, which is manifestly too great for a single lap on a commercial service at the present stage of aeroplane development. There is, however, a thoroughly practicable route from Vancouver or Prince Rupert to Japan by way of the Aleutian and Kurile Islands, over which no single flight would entail a hop of more than 1,730 miles. Assuming that Prince Rupert is chosen as the Canadian terminus, the total distance to Tokio would be 3,780 miles, made up as follows :—

	Miles.
Prince Rupert to Unalaska	1,300
Unalaska to Attu Island	750
Attu Island to Tokio	1,730

The entire route from London to Tokio can be divided into ten main sections, as follows :—

	Miles.		Miles.
London to Galway	400	Winnipeg to Edmonton ..	1,000
Galway to Belle Isle	1,685	Edmonton to Prince Rupert ..	700
Belle Isle to Montreal	956	Prince Rupert to Unalaska ..	1,300
Montreal to Toronto	330	Unalaska to Attu Island ..	750
Toronto to Winnipeg	1,200	Attu Island to Tokio	1,730

Making an allowance for sixteen stops for refuelling, and changing planes, the total distance (10,051 miles) could be flown in eighty hours, or slightly more than three days. The successful operation of such a service, therefore, would enable mails and express to be carried from London to Tokio in less than four days. This, of course, presupposes night flying. In view of the rapid advance in ground organisation, particularly in the matter of radio direction beacons, such a presumption can be regarded as perfectly reasonable. Planes with a cruising speed of no more than 125 miles an hour should be able to maintain this schedule.

Canada

The question may be asked : Is this picture sufficiently alluring to inspire the governments and commercial leaders in Canada and Great Britain ? Will definite steps be taken to consider further the possibilities of such a service ? Or will the development of an alternative route which must prove more costly and less efficient, and which will eliminate Canada as an integral part, be permitted ? Perseverance that can only be adequately described in superlative terms has enabled American airway companies to throw a girdle around South America. They have accomplished a fine feat, and it now remains for Canada and Great Britain to co-operate in throwing a transportation line across to the Orient, thereby assisting materially in the development of the immense markets of the Far East.

II. FEDERAL POLITICS

THE first regular session of the seventeenth Federal Parliament of Canada opened on March 12, and sat for three weeks before adjourning for an Easter recess which has just come to an end. The standing of parties in the House of Commons remains unaltered since the general election, and, assuming that by-elections produce no change in two vacant seats, is as follows : Conservatives, 139 ; Liberals, 89 ; Independent Progressives, 12 ; Labourites, 3 ; Independents, 2. In the Senate deaths have obliterated the Liberal majority, and when two vacancies are filled, the Conservatives and Liberals will each have 48 members. Before Parliament met, the leaders of the Liberal party had made it plain that they did not contemplate any continuance of the accommodating spirit which they had shown at the special emergency session of last autumn, and that they intended to call the Bennett Ministry to a strict account of its stewardship. The Conservatives found themselves in a commanding parliamentary position, but they had already discovered

Federal Politics

that among the roses of power there are many thorns, and almost from the start of the session the Ministry was committed to a defensive rôle.

The Speech from the Throne, if longer, was no less nebulous than usual ; it sought to put as bright a face as possible upon the economic situation which, it was claimed, had been greatly mitigated by the special measures for the relief of unemployment and the upward tariff revision undertaken at the emergency session. It dealt at some length with the late Imperial Conference, and held out hopes of success for the Economic Conference next August. It forecast a further revision of the tariff, but there was appended an explicit statement that the changes in the British preferential rates would merely be in the nature of incidental adjustments. The legislative programme was of a very modest character, and it was definitely announced that the Government had abandoned all idea of dealing with the complicated problem of the control of radio broadcasting until the courts had settled the controversy, raised by the Government of Quebec, about the respective jurisdictions of the federal and provincial authorities in this connection.

The debate on the address has already lasted four weeks and is still unfinished. Many of the large contingent of new members wanted to demonstrate their parliamentary prowess, and all the Opposition members from the prairies felt that they would be remiss in their duty if they did not impress upon the Government the desperate plight of their farmer constituents and their responsibility for its early amelioration. However, it was the proceedings of the last Imperial Conference and the part played by Mr. Bennett in them that provided Mr. Mackenzie King and his colleagues with their most fruitful theme for critical oratory. The Liberal case, which was backed by the other Opposition groups, was that Mr. Bennett had, before he sailed for London, ruined any prospect of success for a scheme of reciprocal preferences by raising the Canadian

Canada

tariff against many British imports ; that by his demand for food taxes he had violated a fundamental principle of the political structure of the Commonwealth, viz., that none of the partner governments should interfere in the domestic policies of another partner ; that he had been unbending and dogmatic while the other Dominion Premiers had been flexible and accommodating, and that he had, by tactics savouring of "high-pressure salesmanship," excited a feeling of resentment in Britain which did not make for cordial Imperial relations or improve the chances of finding a satisfactory market for Canada's exportable surplus of farm produce.

Early in the debate, however, Mr. Bennett offered a spirited defence of his policy ; he contended that it had enjoyed the cordial support of his colleagues from the other Dominions, and he claimed that he asked for nothing more and nothing less than an illustrious Liberal statesman, Sir Wilfrid Laurier, had demanded at the Conference of 1902. To this argument the Liberals retorted that Sir Wilfrid, before submitting any request for a food tax preference on the part of Britain, had substantially reduced the Canadian tariff on British imports, whereas Mr. Bennett, having just raised the tariff on British goods, had no such claim upon British gratitude. The leading spokesmen of the Liberal party also expatiated upon the superior merits of their own budget of 1930 as an instrument of inter-Imperial trade co-operation, and made a general arraignment of the Government's "Canada first" policy, alleging that it was proving wholly unsuited to the needs of Canada's peculiar economic conditions, and not fulfilling the hopes of its sponsors that it would abate unemployment and bring back prosperity. The Conservative speakers, on the other hand, vigorously defended the Government's tariff policy and contended that some of its fruits were already visible in the establishment of new factories, and that it had helped to avert what otherwise would have been a complete industrial débâcle. The Labour group,

Federal Politics

abetted by both the Liberals and the Progressives, has been harrying the Government persistently upon the unemployment situation, which has undergone scant improvement with the advent of spring and is still serious in many communities. Mr. Bourassa, in an unwonted rôle, supported them with an impassioned speech which might have fallen from the lips of Mr. Maxton. He gave a moving account of the conditions which he had discovered by personal investigation among the working classes of Quebec, and declared that "the situation of the slum dweller in the city of London sixty years ago was not any worse than is the situation of thousands of families in the slums of Montreal to-day."

Mr. Bennett still retains the Ministry of Finance, and its duties, added to those of the Premiership and the leadership of the House of Commons, constitute a tremendous burden for any single individual. He has shown an energy and industry which command admiration, but some of his warmest admirers feel that what is almost a Mussolinian zeal for responsibility is in the interests neither of his party nor of the country. The impression prevails, moreover, that he values his Ministers in proportion to their docility, and when Mr. Mackenzie King alleged in the House that the Premier was conveying to the country the impression that his colleagues were a band of nonentities, there was a suspicion of encouraging smiles upon certain ministerial countenances. However, as a practical exponent of economy, Mr. Bennett has achieved a remarkable feat in paring estimates by some 37 million dollars, a process which has caused an infinity of anguish to the faithful partisans who were clamouring for jobs and public works in their constituencies. But there still remains to be bridged a wide gulf between revenue and expenditure for the current fiscal year, and it seems probable that new taxation to the extent of at least 70 million dollars will have to be imposed.

Undoubtedly the general economic situation is a source

with Canada but

of considerable worry not only to the Government but to the leaders of the financial and business worlds. On March 31 there were no less than 275 million bushels of grain still in the country, and during March there had been an ominous decline in export sales ; this carry-over, along with the prospective surplus on the 1931 crop and the wheat holdings of the United States Federal Farm Board, will probably continue to depress the market. The prairie farmers are being deluged with exhortations from a variety of counsellors to turn their energies to mixed farming, and Mr. Beatty, the President of the Canadian Pacific Railway, has bestirred himself with commendable zeal to form an agricultural credit corporation for the purpose of enabling the farmers to purchase livestock. But the western agriculturalists do not take kindly to these exhortations ; they invite their advisers to examine the current prices for livestock, butter, poultry and eggs, which have sunk to deplorably low levels, and they maintain that it would be futile to transform one kind of agricultural glut into another. They aver that a large area of the prairie country, owing to inadequate water supply and transportation handicaps, cannot be profitably devoted to mixed farming, and they contend that if the banks would give them more generous credit and the manufacturers abate their craving for high tariffs which increase the cost of farm production, they would be afforded the most valuable kind of succour.

Meantime the position of many eastern industries is not very happy ; the motor manufacturers, for instance, have lost their markets in the Antipodes as the result of tariff wrangles, a loss which will hardly be offset by the changes in customs regulations about motor imports equivalent to an increase of 15 per cent. in the protective duty, which the Government has recently been prevailed upon to make. The newsprint industry, which has for the last twenty years been a great buttress of Canada's export trade, is struggling with grave difficulties owing to the

Federal Politics

curtailment of the American demand for newsprint as the result of the business slump, which has decreased advertising in the United States ; the Canadian newsprint plants are at present operating at less than 60 per cent. of their capacity, few of them are able to earn enough to meet their fixed charges, and one of the largest units of the industry, the Canada Power and Paper Corporation, is to be subjected to a drastic financial reorganisation which will entail heavy losses for many holders of its securities. Indeed, the cold truth is that none of the great basic natural industries of the Dominion is in a prosperous condition and none of the accepted indices holds out much hope that the bottom of the economic depression has yet been reached.

The Bennett Ministry has staked all its fortunes upon the efficacy of a system of higher tariffs as a remedy for the country's economic travail, and apparently the belief prevails in ministerial circles that a further increase of duties is necessary to secure a complete and well rounded structure of high protectionism. The declarations of Ministers clearly indicate that the tariff wall is to be substantially heightened in the forthcoming budget, but among certain classes of manufacturers doubts have now arisen about the value of the tariff increases which were decreed at the emergency session. The avowed object of these changes was to curtail imports and stimulate domestic production, but certain American manufacturers have apparently decided that their Canadian market is worth saving, and for this purpose have proceeded to establish branch plants in the Dominion. As a result the Canadian manufacturers of canned soups, of gypsum products, of lead pencils, to quote a few cases, are discovering that their American competitors have secured Canadian bases of operations, and in order to justify the capital expenditure involved are pushing their wares with intensified sales pressure. At the best the Canadian market for many products is not large, and some Canadian manufacturing

firms have already found that the higher tariffs which they craved have produced unexpected consequences for themselves and become dead sea fruit. The Canadian steel industry is also at present confronted with a threat of this sort of tariff backfire, and, if the United States Steel Corporation perseveres with its project of establishing a huge Canadian plant at Ojibway, Ontario, which will manufacture every kind of steel product, things will go hard with the existing Canadian steel plants. As a consequence, the steel manufacturers of Canada, who are justifiably alarmed at the prospect of such a formidable rival inside the Canadian tariff wall, are evincing a disposition to lend a sympathetic ear to the plans for a rationalisation of the steel industry of Britain and Canada, which are being submitted to them by Mr. Julian Piggott. The discussion which he has been conducting on behalf of the British steel industry will shortly be expanded to cover the general field of industry by a small delegation of the Federation of British Industries headed by its President, Sir James Lithgow, which will arrive in Canada this month; and there are many people who think that there are greater possibilities for real Imperial trade co-operation in such moves than through tariff preferences, although the latter can probably be employed with profit to promote schemes of Imperial rationalisation.

The fortunes of the wheat pools and the general grain marketing problem are another source of worry to the Government. At present the wheat pools are for all practical purposes in a state of insolvency; their indebtedness to the banks is in excess of 60 million dollars and, although the exact particulars of any agreement reached have never been disclosed, the presumption is that, for the crop advances of 1930 to the pools, the banks are in possession of some sort of guarantee from the Federal Government. Meanwhile the latter has appointed a Royal Commission, headed by Sir Josiah Stamp, to determine authoritatively an issue of ancient controversy in the West—whether the

Federal Politics

marketing of grain "futures" operates to the detriment of the producers. In some agrarian circles the dark suspicion prevails that this inquiry is a preliminary move in a well-planned campaign for the extinction of the pools, but, in view of the unexpected loyalty which the supporters of the pools have shown to their co-operative fabric during days of severe stress, such an adventure as their obliteration would entail grave political risks. Whatever the results of the inquiry, the problem of finding adequate markets which will yield satisfactory prices has yet to be solved, and the outcome of the conference of wheat exporting countries, which the Canadian High Commissioner has arranged to hold in London on May 18, is awaited with keen interest on the prairies.

The Dominion Ministry utilised part of the Easter recess to hold a conference at Ottawa with the representatives of the nine provincial governments to discuss the changes suggested by a committee of experts for the purpose of bringing the legal arrangements of the Commonwealth into conformity with existing constitutional and administrative practice. It will be recalled that at the late Imperial Conference Premier Bennett withheld Canada's endorsement of the proposed changes, and of the "Statute of Westminster" which is to embody them, in deference to the demand of the Governments of Ontario and Quebec that the provinces should be consulted about any changes which might affect their constitutional position. The Ottawa conference was the outcome of Mr. Bennett's acknowledgment of the justice of this claim, and it proved a reasonably harmonious gathering. Eight of the nine provincial governments expressed a complete willingness to acquiesce in the proposed changes. Premier Taschereau of Quebec, suspicious as ever of any action which might tend to remove the trusteeship of the British Parliament for the special rights of the French-Canadian minority, withheld his endorsement until he had had an opportunity of further consultation with his Cabinet.

Canada

It has now been announced that the Quebec Government has approved of the proposed changes, subject to the proviso that the British North America Act and its amendments should be exempted from the consequences of the repeal of the Colonial Laws Validity Act, the effect of which would be to leave the Canadian Parliament free to enact what constitutional changes it wished. This proposal will in all probability be accepted by the other provinces, leaving outstanding only the question of Canada's acquiring the right to amend her own constitution, which Mr. Bennett promised would be considered by a later conference.

Canada.

April 16, 1931.

should be allowed to intrude into the internal affairs of the Commonwealth, and that the Commonwealth Government should be given the right to veto any legislation that might be passed by the State legislatures. The Commonwealth Government should be given the right to veto any legislation that might be passed by the State legislatures. The Commonwealth Government should be given the right to veto any legislation that might be passed by the State legislatures.

AUSTRALIA

I. MEN AND MEASURES AT CANBERRA

THE last three months in Australia have been so crowded with incidents that to tell the story adequately would far exceed all limits of space available for this chronicle. They have been, however, so significant in their bearing upon the crisis of affairs and sometimes so sensational in themselves as to be very fully recorded in the British press.

All Australia awaited with eagerness the homecoming of the Prime Minister from the Imperial Conference. Government policy was clearly the pivot of the economic structure of the Commonwealth. But policy was distracted; Commonwealth and States were taking divergent roads, and the Commonwealth Government was openly at odds; Mr. Fenton and Mr. Lyons, whom Mr. Scullin had left in charge as acting Prime Minister and acting Treasurer, and who were therefore supposed to enjoy his special confidence, had been repeatedly thwarted by their colleagues and the Caucus, and their opponents were themselves divided by policy and by personal antagonisms. What steps would Mr. Scullin take to end this anarchy?

The non-Labour press, and the leaders of the other parties were more than careful not to say anything that might be attributed to party hostility to the Prime Minister. Mr. Fenton and Mr. Lyons had withstood the calamitous financial proposals of their colleagues, and it was believed that they fully accepted the alternative to inflation, *viz.*,

Australia

drastic reduction of Government expenditure. It was understood that Mr. Scullin was on their side, and it was hoped that his official position and personal influence would swing the party and the Governments into line upon a policy which could be accepted by all parties and pursued in both Commonwealth and States as a concerted national effort. Thus, the way was prepared to range behind Mr. Scullin support from non-Labour sources. Mr. Scullin's difficulties would be with his own party: there were some intransigents with whom he must break if there were to be a concert of parties. Prudence demanded that Mr. Scullin should be left to deal with them as a matter of internal party discipline, or his party might swing away from him. This prudence was not in all cases observed.

The Labour press was already deeply committed to the policy of releasing credits to carry on government and provide employment, of "a safeguarded extension backed by the whole resources of a fabulously rich nation, as yet only on the fringe of development"; and the *Labour Daily* (Sydney) demanded from Mr. Scullin a plan for giving effect to that policy of the Labour advance guard, described as Australia's "declaration of financial independence." Mr. Scullin was warned that there was no middle course, "either he was with the bloodsuckers or he was against them"; if he heeded the Nationalist press, he was marked for eternal disgrace, doomed to suffer the fate suffered by the traitors of the past, whose names are anathema to all honest men.

The "advance guard of Labour" expressed itself more authoritatively at a joint meeting of the New South Wales Labour members of the Commonwealth Parliament and the State Executive of the party, held in Sydney on January 12. There it was resolved to endorse the "Gibbons" resolutions of the Caucus, adopted at the beginning of November last*, that the Commonwealth Bank must release sufficient credit as and when required to meet the requirements of govern-

* See *THE ROUND TABLE*, No. 82, March 1931, p. 442.

Men and Measures at Canberra

ment, public works, and productive purposes in primary and secondary industries. Mr. Theodore now sponsored the plan, and became the leader of the New South Wales bloc. The resolutions were interpreted as an ultimatum to Mr. Scullin.

Mr. Scullin's speeches, so eagerly scanned and variously interpreted, have now passed into obscurity. The disintegration of a great political party readily assumes in the eyes of its leaders the character of a supreme national misfortune. In the light of later events, the most significant thing in Mr. Scullin's speeches is his declaration that "he would never split and would never leave the Labour party." He uttered assurances that "for anything done in his absence he was not indignant or angry or fearful," and paid undiscrediting tributes to the loyalty and devotion of colleagues whose differences from each other no pains had been taken to conceal. The insincerity of all this was manifested at a later stage when the cables exchanged between Mr. Scullin and Mr. Fenton and Mr. Lyons were published. The problem was to find a policy to hold the party together, and—it must be added—a leader.

The self-depreciation of Mr. Scullin's speeches revealed a consciousness of insufficiency, and the reiterated assertion of his rights and responsibilities as Prime Minister passed into the rather pathetic declaration: "I walk in (to the party meeting) and tell them as leader what I think and leave it to them to decide." After the speech on January 15, in which Mr. Scullin opened the Labour campaign in the by-election at Parkes, a suburb of Sydney, opinion hardened into belief that the *revenant* had delivered both himself and the search for a policy into the hands of Mr. Theodore. At a caucus meeting on January 26, the Prime Minister moved the re-instatement of Mr. Theodore as Treasurer.* There was more opposition than he had expected; the motion was carried only by 24 votes

* For the circumstances of Mr. Theodore's previous retirement from the Treasurership, see *THE ROUND TABLE*, No. 81, December 1930, p. 186.

Australia

to 19 on a division in which four Ministers voted on one side and three on the other, and the minority included members of both the right and the extreme left of the party. Mr. Fenton and Mr. Lyons resigned from the Cabinet, and one member announced his resignation from the party.

But to some of his colleagues in the Cabinet, notably Mr. Anstey and Mr. Beasley, and to the Premier of New South Wales, powerful in the party organisation of that State, Mr. Theodore was already a "financial reactionary."* The ascendancy of the "Left," in the person and policy of Mr. Theodore, encountered an active insurgence of the "extreme Left." A second by-election furnished a battle ground and precipitated a constitutional crisis within the complex organisation of the party. The State Executive of the party decided that the policy to be announced for Labour should be that of Mr. Lang and not that of Mr. Theodore, called on the Federal members for New South Wales to support it and secured Mr. Beasley to open the campaign. The Federal Executive protested that Federal policy was outside the sphere of the State Executive. Members were thereby placed in a quandary, for the conflict of allegiance might involve the endorsement of their candidature at the general election which events seemed to be rapidly bringing nearer.

A meeting of the Caucus at Canberra formally approved the Theodore financial policy, and a purge of the Ministry was effected by the submission of all offices to the pleasure of the Caucus. Mr. Anstey, Mr. Beasley and Senator Daly failed to secure re-election. The "extreme Left" thus followed the "Right," and withdrew from the Caucus a small group of five members of the House of Representatives, who set up a caucus of their own. On the division on March 14 on a vote of censure, Mr. Lyons and Mr. Fenton and three other

* The financial policy of the two sections of the Labour party is described in the second part of this article.

Men and Measures at Canberra

Labour members voted with the Opposition and thereby voted themselves out of the Labour party. The Government majority, reduced to 5, included the 5 dissident members of the "extreme Left." As these may at any moment absent themselves, the parliamentary position of the Government has become precarious, and a change of Ministry or a general election appears imminent. Mr. Lyons has announced his intention of undertaking a political tour of the Commonwealth.

In all these turmoils, the organisations of the Labour party, industrial and political, have been ceaselessly active in resolutions and demands and instructions to Ministers, both Commonwealth and State. One of these was the demand from Sydney that the Commonwealth Government should declare a "national emergency" and assume all powers of government. Attention to proceedings of organisations takes up no small part of the time of Ministers. Some Labour Ministers have already had to stand trial and to submit to censure, and some individual Ministers have reason to be anxious about their nominations. Mr. Theodore has been expelled by the New South Wales Conference at Sydney, and the remaining New South Wales members who defied the State Executive were reported to the Easter Conference. The extent of the fissure in the Labour party is marked by the determination of the party in New South Wales not to send delegates to that Conference. The determining factor within the Labour party itself may well be the attitude of the Australian Workers' Union, unique among Australian industrial leagues. It does not take kindly to the "Red" aims and doctrines, fashionable among Sydney industrialists, and has in the past done battle successfully with Mr. Lang. It is credited with a determination to exercise a "moderating" influence on Labour counsels.

At the two by-elections, both in Sydney, the "middle vote" at Parkes, a suburban constituency ordinarily Nationalist, turned a Labour majority of more than

Australia

8,000 into a Nationalist majority of the same size ; in East Sydney, a characteristically Labour electorate, the Lang candidate held the seat at a time when the party disputes had become most acute, though the majority was reduced, while in spite of compulsory voting 18 per cent. of the electorate abstained.

Outside Labour organisations, public opinion was long content to acquiesce in newspaper articles without apparently feeling any need for independent expression. That mood has now passed, and leagues and societies are springing up in somewhat embarrassing profusion. Their general note is one of protest against repudiation, bad money, and unbalanced budgets, and a demand that "party" shall be put aside in favour of "national" effort. Country organisations, while accepting all this, emphasise relief to farmers, with an eye to reduced production costs, including interest, and the provision of credits. The high cost of government, too, provokes a demand for simplification of the federal system ; rural grievances, impatience at the predominance of industrialism in city politics, and indignation at the un-British policy of Mr. Lang have led to formidable movements in the New England and Riverina districts, which aim at the separation of these areas from New South Wales ; the long-standing ills which Western Australia, South Australia and Tasmania impute to union in the Commonwealth have become intensified, and secession now has strong support, particularly in Western Australia. Mr. Lang's recklessness is imposing a strain on the whole federal union, for Commonwealth and State finances are so interlocked that, while Mr. Lang calls the tune, the people of every State share with New South Wales the privilege of footing the piper's bill.

Politics and Finance

II. POLITICS AND FINANCE

TO the skimmer of newspaper headlines the economic situation may seem for these three months past to have spouted nothing but mud and trouble. The State Labour Government in New South Wales, led by Mr. J. T. Lang, though promising to balance its budget after Easter, when it predicts a return of prosperity, has interpreted the loan agreement, by which the Commonwealth guarantees the interest on State loans, as making the service of the State debt an indefinitely remote charge on its consolidated revenue. It has proceeded to spend on internal services almost all the revenue raised, calling on the Commonwealth Bank to find funds with which to pay the interest due to bondholders. This line of action bids fair to make the budgetary problem insoluble for New South Wales, for the Commonwealth and for every State. Mr. Lang has restored a forty-four hour week, without diminution of wages, on railways that are already losing money at the rate of about four millions per annum. He has promised the civil service that on the first of April he will renew the salaries that his predecessor, Mr. Bavin, cut by 8½ per cent. Deficits in the budgets of all the States and of the Commonwealth have involved the grant of new credits by the Commonwealth Bank and by trading banks. By February 28 an Australian floating debt of £17,437,000 had been added to the floating debt of £38,075,000 in London, raising the total short-term indebtedness to £55,512,000. The inexorable growth of this sure source of inflation has led investors to move their resources from a scene where heavy taxes and depreciation of the currency loom so large.

On the other side of the account is the 10 per cent. reduction of the basic wage by the Commonwealth Arbitration Court; and if, as seems probable, the A.W.U.*

* The Australian Workers' Union.

Australia

persuades Labour generally to acquiesce, this will go to show that inarticulate unionists have accepted the necessities of bad times. The "cut" in the legal minimum wage has been imposed temporarily and in addition to the regular quarterly adjustments by the "cost of living" index-numbers. It was the State Railway Commissioners of Victoria, Tasmania and South Australia who took the decisive first step towards economy by retrenchment when they applied to the Court for a variation in the Federal basic wage.* They were joined by numerous other employers of labour. On January 22, after hearing long and many-sided arguments, the full Bench of the Arbitration Court refused to alter permanently the customary method of calculating the basic wage, viz., by (a) applying to the "Harvester standard" of 1907 an index-number of the purchasing power of money over food, groceries and house room and (b) adding the "Powers three shillings" to the result. But the Court did order, as a measure necessitated by national emergency, a "cut" of 10 per cent. for one year and thereafter till further order. This reduces the minimum wage legally payable to railway employees in Victoria, South Australia and Tasmania, to clothing-trade employees generally, to shearing-shed hands, motor-body builders, waterside workers, ships' officers, metal trade employees in all States, to timber workers (elsewhere than in Western Australia), and to some minor callings. The award affects more than half a million workers, and reduces the wages bill in the Commonwealth by an amount estimated at about £30 millions. Further applications by employers are likely to extend this emergency cut to all callings under Federal awards, while similar proceedings have been taken to secure corresponding reductions by such State authorities as have not already acted. The Commonwealth Government intervened in the proceedings before the Court in opposition to the application for wage reduction. After the judgment

* See *THE ROUND TABLE*, No. 82, March 1931, p. 445.

Politics and Finance

the Attorney-General applied for a postponement of the operation of the new award, on the ground that the Government was considering plans of a general nature for meeting the economic crisis, and that these plans might be prejudiced or frustrated by the award. The application was refused.

Very naturally, the judgment was received with much anger and some threats of resistance, but in all centres except Sydney talk of a general strike against wage adjustment by arbitration quickly faded out. Are there not 300,000 men out of work? In Sydney the State Executive of the Labour party—its extra-parliamentary command—talked for a month of a strike or a dictatorship. The A.W.U. took another line. It stimulated action against an industrial pastoral union which has been conducting a "red" strike among the Queensland shearers. It further condemned outright the project of a general strike. In July and August of last year its "old guard," the shearers in New South Wales and Victoria, accepted a 20 per cent. cut in the piece-rates for shearing, also awarded by the Commonwealth Arbitration Court. With what hope, then, could the poorer unions of the cities stake their feebler funds and influence on a nation-wide strike? After a futile and costly congress of Australian trade unions in Sydney the proposal for a general strike was overwhelmingly defeated.

Almost simultaneously with the basic wage decision came a move by the banks to vary their "carded rates" of exchange. The "unpegging of the exchanges" had been demanded for some months by political leaders of both the Labour and the Country parties. On October 10 the buying rate was raised to £8 10s. 6d. After three months' pause the senior trading bank, the Bank of New South Wales, initiated on January 5 a series of rapid changes which raised the price of £100 sterling to £115 in Australian money, and finally on January 29 to £130.

Soon after the export season opened the exporting industries had become intolerant of a system which, by

Australia

"rationing" the sale of London money in short supply, deprived them of the stimulus of an eager demand for the sterling which their products brought. Inevitably exporters found the obvious way round rationing and sold their London money direct to importers. As the year ended and the financial horizon darkened there was added to the ordinary demands of importers and governments a growing demand for sterling on the part of investors who were selling out their Australian holdings. This "flight of capital," which rationing inevitably drove into the outside market, became more marked with every event or project of law that betrayed the desire of the Labour caucus at Canberra for inflation either through the note issue or by Commonwealth Bank credits. Thus the Gibbons resolutions, a memorandum by the Commonwealth Statistician favouring an expansion of the note issue until a chosen price-level should be recorded in his index-numbers, and a Wheat Advances Act promising to make up the export value of wheat to 3s. a bushel by advancing money to wheat merchants and pools from the depleted consolidated revenue—all these portents of financial irresponsibility in high places set investors' nerves atwitch. Even before the Bank of New South Wales took action early in January the open market rate had passed the £115 figure to which the "carded rate" was raised. The events that followed abundantly illustrate the maxim that you can only allay a panic by removing its cause. The banks were paying more for sterling and they still rationed their sales of it. The public inferred that the banks shared their preference for British pounds. With each rise in the banks' rate, "quitters" bid more eagerly in the open market. Several of the banks alleged that they were doing less exchange business than ever. Local inflation, moreover, loomed larger. As London funds grew dearer and budgets remained unbalanced, the Commonwealth Bank granted larger and larger credits to States and Commonwealth on the security of Commonwealth Treasury Bills. Plainly

Politics and Finance

these central-bank credits would, as they circulated, expand the "cash in hand and at the Commonwealth Bank" which has become, since gold departed, the liquid reserve of the trading banks. Thus the "new money" created to meet government deficits was enlarging the basis of an inflated credit structure.

The principle of the Niemeyer statement in August, that budgetary equilibrium was the crux of Australia's problem, was endorsed in two statements by experts made just before and just after the Parkes by-election. The first was the work of eight university economists, setting out the primary steps to national recovery. The second was a report from a committee of under-treasurers, under the chairmanship of Sir Robert Gibson, the Commonwealth Bank chairman. This committee had been asked, at an abortive Premiers' Conference held after Mr. Scullin's return, to prepare information for the guidance of a further meeting at Canberra on February 7. The Commonwealth and State budgets, the committee reported, were likely to show, for the year 1930-31, a combined deficit of at least £15,000,000. Unless confidence were re-established and trade revived this figure would grow in 1931-32 to approximately £25,000,000. Signs of diminishing capacity to pay taxes made it clear that the main effort to fill the gap must be by reduction of expenditure in every possible way. The under-treasurers were convinced that a further reduction of £15,000,000 per annum in the total present expenditure of governments was imperative. The only alternative, default in government payments, would produce "evils immeasurably greater than any hardships which the nation need be asked to face in order to restore Australia to a sound position." Financial panic would breed complete paralysis in business. "Insolvencies would be the order of the day. Unemployment would be general. Recovery would be indefinitely protracted."

The under-treasurers' programme was summarily ruled out of order by the Prime Minister as having been outside

Australia

their terms of reference, and Mr. Theodore propounded the government plan—*injection of credit by the banks backed by the currency resources of the Commonwealth Bank*; restoration of internal prices to the 1929 level, and then stabilisation of prices and wages: the credit to be the means of restoring the national income, increasing production and consuming power, placing in employment 100,000 or 200,000 persons, and balancing the budgets without increasing taxation. Mr. Lang had a simpler plan, which might at least be understood of the people—*suspension of all payments on external loans pending a readjustment of obligations*; reduction of interest on internal loans to 3 per cent.; and a new currency which, discarding the gold standard, was adjustable to a goods standard. He startled the world by declaring that, whatever the Conference of Premiers decided, the plan he had proposed embodied the course which the Government of New South Wales had adopted so far as interest payments were concerned. Mr. Theodore's proposals, somewhat watered down, were remitted for consideration to the Commonwealth and trading banks. The reply of the Commonwealth Bank Board reiterated the need for reduction of government expenditure “and other factors which affect the cost of living,” and, subject thereto, promised co-operation with the Government and the banks in sustaining industry and restoring employment. The Conference adopted a series of resolutions in which provision by governments and banks in co-operation for the rehabilitation of industry and stimulation of employment, accompanied by a substantial reduction of interest rates, was more prominent than a reduction of government expenditure: the sheltered income of holders of government securities was to be subject to a special tax of 3s. 6d. in the pound. Commending these proposals to the consideration of bankers, the Conference broke up, without having made any considerable addition to the restoration of confidence. It had arranged a political compromise

Politics and Finance

rather than a practicable economic scheme ; its formulas for giving satisfaction to divergent policies enabled each to lay the emphasis where he would. So, while to some Premiers it was a return to the August agreement with its promise to reduce expenditure, to the Commonwealth Ministers its really important feature was the stimulation to be afforded by a vigorous policy of bank credits. The scheme was unacceptable to the trading banks, as must indeed have been expected, and the Commonwealth Government then proceeded to seek the sanction of the Caucus for a "fiduciary currency" of £18 million, to be devoted, as to £6 million, to the relief of farmers, and as to £12 million at the rate of a million a month, to finance public works and other measures for the relief of unemployment. This policy, affirmed by the Caucus, was embodied in a Bill presented by Government to the House of Representatives, with an alternative that the issue of the notes should be suspended, if satisfactory arrangements for the issue of credits could be made with the Commonwealth Bank Board.

The Treasurer has also introduced a Bank Interest Bill for controlling interest on bank deposits and advances, and the discount rates charged by banks on bills, drafts and other securities. In the exercise of its powers, the Ministry is to be aided by a board of five persons, appointed by the Government for five years. The reason alleged for the Bill is the failure of the banks to co-operate with the Government to the extent necessary for relieving the financial conditions of the country. As a first measure under the Bill, if it becomes law, the Government proposed a reduction of 1 per cent. on the interest rate on deposits, and a possible 1½ per cent. on the rate on advances. Neither of the Government Bills is likely to pass the Senate and it is evident that the stage is being set for a general election, with a Government attack on the "money power" as its central feature. The Central Bank Bill of last year, which the Senate has not passed, may be taken up again by the

Australia

Government and sent to the Senate, so that its rejection may be made the occasion for a double dissolution.

In New South Wales, Mr. Lang pursues his impetuous course. He has introduced and carried through the Assembly a Bill for reducing all government interest on New South Wales loans in Australia to 3 per cent. and claims that he is in company with the Commonwealth Government as a "repudiator," for their proposed "interest tax" means nothing else. More specific than the Commonwealth proposal, the Bill fixes a 5 per cent. maximum for interest on bank advances and first mortgages. In the industrial sphere, another Bill establishes absolute preference to unionists, bans certain named unions as bogus, and arms union officials with a wide range of powers, sanctioned by heavy penalties against employers and employees, including the power to order the dismissals of non-unionists. Mr. Lang has met with a rebuff in the High Court decision, by a majority of three to two, that the Legislative Council cannot be abolished without a referendum. Unable to abolish the Council, he has sought the authority of the Governor to swamp it. Unsuccessful in this attempt, he is now rumoured to have demanded the recall of the Governor. A growing body of opinion considers that the Governor should dismiss Mr. Lang.

III. THE PROBLEMS OF THE NORTHERN TERRITORY

AMID the tumults and the shoutings which marked the close of 1930 at Canberra, the discussion of an important Bill to alter administration and policy in the Northern Territory passed almost unnoticed by the Australian people. Once again the nation showed little interest in its huge tropical territory, although the latter embraces a fifth of the Commonwealth, and provides an unrivalled field for a clear survey of many of the grave difficulties which have now spread to every corner of the land. More than this, the region is an area of world importance,

The Problems of the Northern Territory

not merely owing to its alleged potentialities, but because of its significance in the greatest biological experiment of history, the attempt to keep a whole continent white.

There have been three eras of experimental settlement in the Territory—the British military stations, the South Australian administration, and Commonwealth rule. Each has provided a different type of settler—the soldier, the Chinese coolie, and the white industrialist. It is impossible to grasp the gravity of the present difficulties without considering the failure of each of these régimes.

The British coastal stations of 1824-49 proved that the Territory was remote from the trade routes, that the soil was "sterile and ungrateful," and that the Asiatic, in his wisdom, was unwilling to come in. The failures also created the less accurate impressions that the climate was "malignant and unhealthy," and that the seaboard was "unfit for the residence of civilised man."

In the 'sixties the tide of "squattocracy" approached the Territory, and, as Queensland unfortunately refused to superintend a latitudinal penetration, the British Government accepted the offer of South Australia to conduct an inexpensive longitudinal occupation northwards along the line of McDouall Stuart's route. On obtaining the territory South Australia at once perpetrated a breach of faith, and attempted to develop the country through the coastlands rather than the healthy tablelands—by the sea-ways rather than by the land-ways—a policy which could have been better effected from India or Singapore. Under the old conditions of tropical colonisation South Australians died like flies on the coastal gold reefs, and the colonists concluded that English farmers would be useless in "the most barren country God had ever made." The Government then turned to coloured labour, and, although Japan refused the offer of free emigration and free passages, the administration poured in Chinese coolies from Singapore. Thus the Northern Territory became the keystone of Chinese settlement in Australia, and the last stronghold of

Australia

the Chinese race. South Australia failed to develop the country with coolie labour, for agricultural plantations proved a dismal failure, and, although the Chinese won large quantities of gold, they were badly controlled and picked the eyes out of the best mines. Nevertheless, the South Australian administration possessed redeeming features. The settlers proved the climate healthy; the whites lived in comfort with a substratum of coloured labour; there were no political disturbances, and mining, pearlimg, and cattle, despite the terrible "red water," made some headway. Above all, the colony was poor and economical. In forty-eight years it contracted a debt of only six millions—on the dependency itself and on the two sections of the transcontinental railway line.

The record of Federal administration from 1911 is, like Canberra, "a document of Australian immaturity." The chapter opened with the high ideals of the White Australia Policy, the lavish spending of borrowed money, and a course of development on scientific lines. Once again, however, the effort was directed to the tropical coastlands and a longitudinal penetration, and the resulting disaster was more extensive and tragic than any in previous days. Selfishly urged by South Australia, the Federal Government pushed forward—and stopped—the construction of the transcontinental line. They wasted huge sums in unsuccessful experiments in agriculture and mining in the coastlands. They vitiated some excellent improvements on the stock routes to the east and west by an agreement with Vestey Brothers, who introduced industrialism into the Territory in an effort to establish a vast meat enterprise at Darwin—the old illusive northern gate. Thus Australian socialism, bureaucracy, and industrialism entered the Territory to play their tragic comedy in raiment of borrowed gold. Official and extremist fought for supremacy, while the weak administration of the young democracy watched with indifference the failure of its experiment, and made little effort to uphold its prestige and honour when its

The Problems of the Northern Territory

representatives were assaulted or expelled. By 1920 the battle was over, and the extreme section of the white industrialists had gained a triumph, which itself showed the utter inadequacy of the victors as tropical pioneers. Arbitration had forced wages to a figure which rendered agriculture, mining and transport impossible. Vesteys had closed with the loss of a million of capital. The only economic industries—pearl shell and cattle—depended upon the coloured labour of Asiatics and aborigines. Yet the Federal Government had no perception of its weakness or its failure. In 1926 it divided the Territory into North and Central Australia, and proposed that the Commonwealth should add the remaining parts of the tropics to the huge region in which it had so lamentably failed. Here at last was a wise move towards the latitudinal policy, with east and west railways through the Kimberleys and Barkly tableland, but there is little wonder that Queensland and Western Australia refused to trust the national administration in a still wider enterprise. The Act of 1930 now reflects this failure, and it may mark a return to the bad old policy of longitudinal penetration, and the administrative system of the early Federal days.

Australians may well ask themselves whether they are facing insuperable natural difficulties in the Territory, and why it should remain an iceberg of tragic disillusionment unmelted by the soft warm waters of neighbouring success. History and science provide the answer, and it is one which all who would advertise “the vast and undeveloped potentialities” of the continent should read and understand.

First, the climate has been proved healthy, but it presents great economic difficulty, for the rainfall is very low and unreliable for a tropical region, and it is poorly distributed throughout the year. Secondly, scientific analysis has shown the poverty of a soil which is leached by the short and heavy summer rains. Climate and soil therefore offer poor agricultural prospects, even with the assistance of uneconomic tariffs and bounties, while, although there are

Australia

quantities of minerals, the White Australia policy, and the wages, hours, and cost of transport which it involves, destroy all hope of opening up the mines. The interior tablelands offer fine prospects for cattle, but the demands of white labour again present a hopeless barrier at the northern gate. In such circumstances cattle raising is the only industry worth developing, and expenditure upon airways, cattle routes, and motor roads, particularly towards the eastern markets, is the only outlay which is justified.

Critics have offered some sound suggestions as to the future of the Territory, and these are well worthy of consideration in the light of the gravity of our present financial burdens. The best proposals are that the Commonwealth should offer the administration to a cattle company, free from Australian social burdens, or divide the whole area between Western Australia, Queensland, and South Australia, whose cattle regions now extend far into the Territory under the influence of geographical and economic contacts. In either case the Commonwealth could royally pension the 3,000 inhabitants of the Darwin coastlands, the area which has been primarily responsible for an annual deficit averaging £570,000, and for debt commitments which have reached the enormous total of £11,000,000 in the last nineteen years. In spite of heroic and tragic efforts, white and coloured labour have both failed in the Territory, and Australia should now treat the region as a pastoral country, and leave the problem of closer settlement until the better parts of the continent are densely occupied. The pressure of population and the progress of science will solve the main difficulties at some future time.

Postscript

On March 26 Mr. Lang had definitely informed the Prime Minister that he might "advise the High Commissioner that New South Wales does not intend to meet interest payable at the Westminster Bank on April 1." On March 31, it was announced that the Commonwealth would

The Problems of the Northern Territory

make the payments, and take legal proceedings in the High Court to recover the amount from New South Wales.

On March 27, it was announced by Mr. Lyons that, with the approval of Mr. Latham, the leader of the Nationalist party, and of the deputy-leader of the Country party, he had issued an appeal for unity in "one great Commonwealth movement," on the following principles:—

1. Restoration of external and internal credit by re-establishing confidence in the integrity of Government finance. The national currency to be preserved from political control. No indirect repudiation of national obligations by debasing the currency.
2. The restoration of a balanced national budget on a basis of equality of sacrifice to be progressively effected as the financial capacity of the community permits.
3. Economy in cost of government by bringing government expenditure into reasonable correspondence with the fall in the national income.
4. Economically sound tariff policy with effective preference to Great Britain and inter-Dominion reciprocity.
5. Re-employment of the people by the encouragement of productive enterprise.
6. A fair deal for every section of the community. Protection of the worker by industrial tribunals. Protection of the employer against undue interference with business management.
7. Immediate assistance to the man on the land by providing real money to be expended on keeping Australian land in profitable production.

Australia. April 2, 1931.

The sums due on April 1 on account of the New South Wales debt have now been duly paid by the Commonwealth, and later defaults on other New South Wales loans (including some raised in New York) have likewise been made good. On April 17 the Australian Senate rejected the Bill to enable the issue of a fiduciary currency—Mr. Theodore admitted that the Commonwealth Bank had warned the Loan Council "that the point is being reached beyond which it is impossible for the bank to provide further assistance to the governments." The Government's proposal to ship the Commonwealth Bank's gold reserve to London to meet the £5,000,000 of Treasury Bills due on June 30 was also rejected by the Senate on May 13. On May 7 the Federal Opposition groups, except the Country party, unanimously agreed to form the "United Australia Party," under Mr. Lyons, with Mr. Latham as deputy leader, the Country party promising its support. A vote of censure was then moved by Mr. Lyons in the Federal House of Representatives, but defeated by 34 votes to 32, the Lang Group voting for the Government.—EDITOR.

SOUTH AFRICA

I. THE SESSION

ON January 30, the Earl of Clarendon, South Africa's new Governor-General, opened the third Session of the Union's sixth Parliament. On March 30 and 31 the general and railway budget speeches were delivered. Thereafter Parliament went into recess for Easter. It resumed on April 13, and will probably have concluded its business early in June.

The session thus promises to be a short one, and for that the brevity of the Government's legislative programme is responsible. South Africa, like other countries, has been hit by the economic blizzard, the financial and political consequences of which are absorbing the attention of the Government. Very few Bills of importance, therefore, other than those of a financial or economic character, have been submitted to Parliament.

The party situation must first be summarised. At the general election in June 1929* there were returned to the House of Assembly 83 pledged supporters of General Hertzog's Nationalist-Labour Government. Of these only five belonged to the attenuated Labour wing of the Pact, two Cabinet Ministers, Colonel Creswell and Mr. Sampson, and three others. Of the remaining 65 members of the House then elected, 61 belonged to General Smuts's South African party, three to the National Council section of the Labour party, which is hostile to Colonel Creswell, while

* *THE ROUND TABLE*, No. 76, September 1929, p. 869.

The Session

one was returned as an Independent Nationalist. Since the general election there have been three by-elections; in one case the South African party held the seat with an increased majority, in the second it wrested the seat from the Nationalists, in the case of the third, also a Nationalist seat, an election petition has led to protracted litigation, and at the moment of writing the seat is, in fact, vacant. Meantime the Independent Nationalist has drifted into opposition to the Government. Its majority, therefore, after allowing for the possible exclusion of both the Speaker and the Chairman of Committees from a division, has been reduced to thirteen.

That in itself should, in a House of 148, be sufficient to enable the Government to maintain its position for the remaining three years of the period for which the present Parliament has been elected. Two factors have, however, presented themselves which suggest the possibility of a speedier change. The one is the position of the Government's Labour supporters. Labour has suffered severely as a party from its participation in the government. It has been split into fragments, it has lost much of its effective support in the country, its parliamentary representation has been sadly reduced, and at the New Year Conference of the Creswellite Labour party it was decided that the two Labour Ministers must leave the Cabinet before the end of 1931. It seems probable that they will do so some time after the session ends. No doubt they and their followers will continue to give the Government general support, but in a time of such financial stringency the latter will almost certainly be forced to adopt expedients, against which they will have to record their votes—the more so as the Minister of Finance has in his budget speech come out boldly for the reduction of the costs of production, and indicated that the scaling down of wages is necessary as a means thereto.

The other factor is also connected with the Union's economic difficulties. The Nationalist Government has

South Africa

hitherto been supported by the majority of the Afrikaans-speaking workers in the towns, very many of whom are in the railway and other State services, as well as by most of the farmers, especially those whose economic position is relatively unstable. It has now been driven to apply measures of economy to its own servants, and its attempts to assist the farmer have not gone anything like as far as the latter desired. Moreover, in South Africa perhaps more than in other countries, the Government tends to be held accountable for the causes of economic discontent. So then, although the Nationalist party in Parliament is still outwardly united in support of General Hertzog, there are many murmurings in the railway camps and on the farms. And it is just at this time that a possible leader of the disaffection has presented himself, in the person of the Independent Nationalist already referred to, Dr. W. P. Steenkamp, a Dutch Reformed Church clergyman, who has become a medical doctor, a man whose power of emotional appeal and insight into the psychology of the so-called "poor white," to whose cause he is sincerely, if somewhat indiscriminately, devoted, are such as to enable him to fire the popular imagination at a time like the present. He has definitely broken with the Government, and has issued a statement of the principles of a "National Workers and Farmers party." It may be doubted if he has all the qualities of a party leader—but even so his emergence is a portent indicating that all is no longer well with the Nationalist party.

It is to these things rather than to the actual happenings in Parliament that political attention has in the main been directed, though the session has been far from devoid of interest. It was thought that the Opposition would launch a no-confidence motion at the outset. It preferred, however, on tactical grounds, to initiate a series of attacks on the Government on specific issues—unemployment, railway administration, agricultural distress, the German treaty, and public service appointments. As a result the

The Session

Government has been kept almost continuously on the defensive, and the atmosphere of Parliament has on occasion become highly charged. One unhappy result has been the dissipation of a large measure of the better feeling between Dutch and British which has of late been in evidence. It may be hoped that this will prove to be merely temporary.

It is, however, on its handling of the general and railway finances that the Government is at the moment chiefly vulnerable, and it is to the discussion of the two budgets and the contingent financial measures that the greater part of the second half of the session will be devoted. Mr. Havenga, the Minister of Finance, has been compelled in his budget speech to plead guilty to the charge of over-confidence in the framing of his estimates of revenue for last year. They were indeed too high by £1,688,000, and despite savings in expenditure he has ended the year with a deficit of £1,212,000. For the year 1931-2 he is budgeting for a further deficit of £1,676,000, making a total of close on £3 million, which is comparable to a deficit of £80 million in the British budget. To the extent of £2,160,000 he is proposing to meet the deficit by increased taxation. The details will be given in a later section. Here it will be sufficient to say that the taxation proposals which seem to bear disproportionately on the married man with an income of from £300 to £600—and that term in South Africa includes the clerk and the artisan—cannot but tend to weaken the Government's position in the country.

But while the main financial and economic measures fall to be discussed in the second half of the session, two Bills of considerable importance passed into law during its earlier stages. The one has given the Government full control of the importation of flour and meal. South Africa at present produces on the average three-fourths of the wheat necessary for its own consumption—the balance must be imported. But the yield per acre of the wheat-producing soils is low, and tariff protection for the

South Africa

wheat-grower has long been an accepted article of the Union's fiscal policy. The fall of world prices has of late rendered this protection ineffective. Last year the Government took power to control and restrict the importation of wheat—this year it has extended its powers to cover flour and meal as well. Its object in doing so is to ensure for the grower a price of 22s. 6d. per 200-lb. bag. From the point of view of the consumer who to-day pays 8d. for a two-pound loaf in most parts of the Union, the effect is that he can expect no benefit from the drop in world prices ; indeed, where the price to-day is less than 8d. an increase will almost certainly result. This measure was introduced by the Government for the buttressing up of one comparatively small section of the farming community. More general in its scope was the Farmers Special Relief Bill, conceived as a means of combating the present widespread agricultural distress. In effect this measure empowers the Government to make, to approved applicants, advances up to £1,000 in each case, which shall be applied to the repayment of their existing debts. Such advances are to be made on security, including the farmer's movable assets, which would not ordinarily be accepted as such by a commercial institution. The measure has met with a great deal of criticism on the grounds both of financial soundness and of its probable efficacy in relieving rural distress.

Of that part of the Government's legislative programme which is not directly economic in its scope two measures only need be referred to. One of these has raised again the problem of the franchise and its bearing on the relations between Europeans and non-Europeans in the Union. It will be remembered that part of the compromise on which the Union of South Africa was based was to leave the franchise laws untouched in the several provinces. That meant the persistence in the Transvaal and the Free State of manhood suffrage limited to Europeans ; it meant in the Cape and Natal the retention of qualifications, educational,

The Session

property, and income, the possession of which admits to the roll of voters not only Europeans, but also the natives and the people of mixed blood, whose chief constituent element is the so-called Cape coloured folk in the Cape Province. The Native Bills of General Hertzog,* which have been under consideration by a Select Committee since the commencement of the 1930 session, provide for the transference of the native voters to a separate, or communal, roll, while the coloured voters are to remain on the same roll as the Europeans, and are in general conceived as, potentially at least, their political equals. But in the meantime a Women's Enfranchisement Act† was passed in 1930 on the basis of Union-wide womanhood franchise limited to Europeans. That has placed the women on the same basis as the men in the Transvaal and the Orange Free State—in the other two provinces it created a twofold anomaly. The franchise is open to the non-European man, but not to the non-European woman; the European male voter has to possess qualifications which are not required in the case of the European female. It is to the removal of the second of these anomalies that the Franchise Laws Amendment Bill of this session has been directed. It provides for Union-wide adult suffrage for Europeans; the position of the non-European male in the Cape and Natal provinces remains for the moment unaffected. But the wiping out of one anomaly has created another, for there is now a differentiation in those two provinces between the European male and the non-European male; and General Hertzog's policy of political equality for the Cape coloured folk seems to have been negatived. The effect on the proposals before the Select Committee is still obscure—but the difficulty of South Africa's franchise problem has again been brought into relief.

This measure, which was sponsored by Dr. Malan, the

* *THE ROUND TABLE*, No. 66, March 1927, p. 398; No. 75, June 1929, p. 647; No. 78, March 1930, pp. 416-18.

† *THE ROUND TABLE*, No. 79, June 1930, pp. 646-7.

South Africa

Minister of the Interior, has passed the Assembly ; it may be accepted that it will pass the Senate. Dr. Malan has, however, been less fortunate in respect of another measure introduced by him, this time as Minister of Education. For two sessions now he has been attempting to secure from Parliament more extended powers of control over university institutions, including the power of veto in relation to staff appointments, a substitution in effect of the Continental for the British system. Nor has he hesitated to disclose his reasons for doing so. He is dissatisfied with the inadequacy of the present provision for instruction through the medium of Afrikaans in some of these institutions, and in that connection wishes to restrict the appointment of professors and lecturers from oversea. Against this attempt to set up a tariff against imported brains the universities have protested vigorously. They are prepared to accept the ideal of language equality, but they desire that due account should be taken of the practical difficulties of giving immediate effect to it, and they wish to avoid the impoverishment that would result if they were to be restricted to a single country in the making of appointments. Their protests have not been without effect. The Minister has withdrawn the Higher Education Control Bill, as first introduced by him, and submitted it in a new form with the proposed power of veto omitted. But he has, at the same time, inserted a new clause, withdrawing from Parliament its present power of determining the basis of State grants to the institutions, and leaving it to himself to fix each year the amount of these grants at his discretion. This will, of course, place in the Minister's hands a power almost of life and death over the institutions, and it implies the means of exercising pressure on the shaping of their policies. On this point, therefore, it may be expected that a great deal will still be heard.

The Budget

II. THE BUDGET

WHEN, a year ago, Mr. Havenga, the Minister for Finance, introduced his first "depression" budget, he was under the influence of the optimistic forecasts at that time prevalent in the United States of America, the spiritual home of the Government's economic advisers. In spite, therefore, of a rapidly falling customs revenue, he contented himself with imposing a few protective duties which, while abstracting money from the taxpayer, did not benefit the Treasury, and withdrawing the 20 per cent. rebate of income-tax which had been granted in the preceding year. This meant that he had to budget for a deficit of £825,000, of which about £425,000 was expected to be covered by the surplus carried forward from 1929-30. The remaining £400,000 would, he hoped, be made good by administrative economies.

Experience has shown that the optimistic view then taken was not justified. Imports continued to drop month by month, and the revenue derived from customs duties for the financial year was not more than £7,300,000, as compared with the estimate of £8,450,000 and actual receipts of £9,244,000 in the preceding year, which included several months of depression. In addition, receipts from excise duties on spirits, sugar, beer, and cigarettes were £209,000 below the estimate, post office receipts £200,000, diamond revenue £350,000, and stamp duties £70,000. On the other hand, the income-tax and death duties each yielded about £150,000 above the estimate. The net result of these variations is that the total receipts for the year, at £28,300,000, are about £1,688,000 less than the estimate.

On the expenditure side, the efforts to effect administrative economies have had considerable success, and the expenditure for the year has been reduced from the original estimate of £30,813,000 to a little over £30,000,000. The

South Africa

resulting deficit for the year is therefore about £1,700,000, compared with an estimated deficit of £800,000. The surplus actually carried forward from 1929-30 was £488,000, so that the net deficit remaining to be carried forward to 1931-32 is a little over £1,200,000.

During the coming year Mr. Havenga expects to see some improvement in customs and diamond revenue, which will, however, be more than offset by an anticipated fall in the yield of income-tax and death duties. On the present basis of taxation, therefore, he anticipates a further fall in revenue of about £800,000 to £27,500,000. He hopes, by maintaining pressure in the direction of economies, to reduce expenditure by about the same amount, to £29,200,000, which would give a deficit about equal to the one realised during the past year. This, together with the deficit of £1,200,000 carried forward, would give a total by March 1932 of £2,900,000.

In dealing with this deficit Mr. Havenga has resisted the temptation to divert revenue from non-permanent sources, such as the sale of Namaqualand diamonds and receipts from mining leases, from the loan account to the general account. This decision is the more necessary owing to the fact that during the coming year the burden on the loan account will be unusually heavy in consequence of the capital requirements of the new State iron and steel works at Pretoria, and also of the Farmers Relief Act, under which £5,000,000 of Government loan moneys are to be advanced through the land Bank to enable the debts of financially embarrassed farmers to be taken over. He has therefore decided to impose increased taxation sufficient to meet £2,200,000 of the deficit this year, leaving the remaining £700,000 to be carried forward as a deficit to 1932-33.

In selecting the form which this additional taxation is to take, Mr. Havenga has been guided largely by the taxes which have been remitted during the prosperous years between 1925 and 1929. These remissions include

The Budget

concessions to married income-tax payers, reductions of customs duties on tea, textiles, and household utilities, and the return to inland penny postage. Most of these benefits are now to go. The married income-tax payer's general abatement is reduced from £400 to £300, and, though he is allowed to keep the increased abatement for children, the effect will be to swell income-tax receipts by about £250,000. With the exception of the duties on cotton piece goods, which are only partially re-imposed, the whole of the customs reductions are withdrawn, at a cost to the taxpayer of about £506,000. Worst of all, the rate on inland letters is to be raised from 1d. to 2d., and on post-cards, accounts, receipts, etc., from ½d. to 1d. This is expected to produce about £600,000, of which perhaps £200,000 is required to balance the post office accounts, while the remainder will be a contribution to the general revenue.

These measures are expected to bring in about £1,356,000 out of the proposed £2,200,000. For the remaining £844,000 recourse will be had to new taxes. Of these the most important is an increase in the customs duty on petrol from 3d. to 6d. a gallon, which is expected to bring in an extra £700,000. In introducing this measure Mr. Havenga permitted himself to hope that the present position of the petrol market would prevent this tax from being passed on to the consumer. Nevertheless, on the morning after the budget, Cape Town motorists found themselves paying 2s. 3d. a gallon instead of 2s., a result which, it may be imagined, does not wholly displease Mr. Havenga's colleague, the Minister of Railways, who is also faced with a large deficit, and is much harassed by the competition of privately owned motor vehicles.

The next blow administered by Mr. Havenga was the raising of the duty on promissory notes and bills of exchange payable on demand (including cheques) from 1d. to 2d., together with increased duties on receipts for amounts over £5. This is estimated to bring in £150,000. Finally, to give

South Africa

good weight, he threw in an increase in customs duty on wireless apparatus, designed to produce £15,000. The total increase in revenue provided by the new taxes is therefore £2,221,000 in a full year, and £2,160,000 during the coming financial year.

Perhaps the most surprising part of the whole budget speech was Mr. Havenga's exordium. In his survey of the prospects for the coming year he went out of his way to emphasise the fact that, before the trade of the world could once more be placed on a satisfactory footing, prices of manufactured articles and retail prices would have to be brought down to a level more in accordance with the price ruling for primary produce, and he pointed out that this could only be done by a modification of the attitude of organised labour. He quoted with approval from the report of the chairman of the governing board of the Chase National Bank that "price fixing palliatives, whether employed by Governments or by trade combinations, merely delay the necessary readjustments," and that "the forced maintenance of wage scales at which labour cannot find employment does no good to labour or to anyone else."

It is very doubtful if any practical result will follow from this remarkable conversion to sound economics on the part of the Finance Minister of a Government which has hitherto combined the economic fallacies of United States protectionism with those of British socialism, by endeavouring, through the Wages Act, to fix skilled and semi-skilled wages at a level considerably higher than that ruling in Great Britain, by deliberately maintaining the prices of wheat and sugar at more than twice the world level, and by using the butter and cheese export boards to enforce the export of cheese and butter, to be sold at a loss in London, in order to keep up local prices. On general grounds, it is exceedingly unlikely that any change from the existing protectionist policy is contemplated; but it does appear to be just within the bounds of possibility

The Budget

that the Government is contemplating a change in its industrial labour policy. If this be so, possible causes for such action are (1) the widening breach with the Labour party ; (2) its growing consciousness, as a farmers' party, that artificially high industrial wages are a tax on the farmer ; and (3) the realisation that only by making easier the entry into skilled and semi-skilled industries can it hope to find work for the large number of folk who will almost inevitably be forced off the land into the towns if present prices of primary produce prove to be permanent.

If such a change in policy is indeed contemplated, it will presumably receive a good deal of support from the South African party, but would be strenuously resisted by Labour, which is still represented in the Cabinet, and would probably be followed by a period of acute industrial strife. On the whole, it seems likely that political expediency will win, and that the Government will prefer, if possible, to leave it to its successors to incur the odium of cleaning up the mess.

The budget debate has not yet taken place ; but, judging from opinions expressed in the newspapers and by the man in the street, it is probable that the Opposition's attack will be directed on some at least of the following lines. First, it is urged that, while the present difficulties are immediately due to the world depression, they are intensified by the extravagance of the Government during the recent years of prosperity. This is a charge which is certainly partly justified, and the more so as our system of appointment and promotion in the public service* is not calculated to give the best value for the money, and lends itself, moreover, to the creation of jobs. Secondly, the existing difficulties will be increased by the borrowing of nearly £10,000,000 for the construction of the State iron and steel works at Pretoria, and the financing of hard-pressed farmers or, as cynics allege, of their creditors. Further, that, though the decision to meet the deficit out

* See *THE ROUND TABLE*, No. 80, September 1930, pp. 884, *et seq.*

South Africa

of the proceeds of new taxation is sound, these new taxes are concentrated unfairly on the commercial class and the town-dwellers who form a large proportion of the Opposition's supporters. This is all the more irritating in that other practicable means of taxation have not yet been exploited, such as an excise on pipe tobacco and wine, or a heavier excise on cigarettes and spirits, imposts which would have to be borne by the rural as well as the urban population. Again, a few bold spirits, though as yet only a few, venture to point out that very considerable sums of money are taken annually from the pockets of the taxpayers, not for the benefit of the exchequer, but for certain protected industries. The amount of this taxation is hard to estimate ; probably it is not less than 25 per cent. of the total budget revenue ; but if even a fraction of it were diverted to revenue, additional taxation would hardly be needed now. In any case, this protective taxation, in addition to that proposed in the budget, is excessive. Finally—and here the way is open for a direct frontal attack all along the line on the Government's position—the newly-expressed economic beliefs of the Minister of Finance cannot be squared with past performance or even with current practice. The way of converted sinners is likely to be hard if they continue to consort with unconverted associates.

The Railway Budget

Like his colleague Mr. Havenga, Mr. Malan, the Minister of Railways, has a doleful tale to tell. A year ago, with what was even then considered to be excessive optimism, he estimated his combined revenue for 1930-31, from railways, harbours and government-owned steamships, at £31,794,552 and his expenditure at £31,940,264. This left an estimated deficit of £145,712. Actually the earnings for the past year have been about £28,674,000, while the expenditure, on the basis originally estimated, has been about £29,724,000, giving a deficit of

The Budget

about £1,050,000. This deficit has been reduced to £800,000 by the suspension of the usual annual contribution of £250,000 in reduction of interest-bearing capital, and a further reduction of £105,000 has been obtained by appropriating the balance standing to the credit of the Rates Equalisation Fund. The remaining deficit, estimated at about £695,000, will be carried forward to 1931-32.

The reduction in expenses during the year was due partly to economies in administration, but mainly to the reduction in operating expenses consequent upon reduced traffic. Unfortunately for earnings, this decrease was felt most severely in high-rated goods traffic which consists to a large extent of imported goods, while the low-rated traffic, much of which does little more than pay the bare running costs, has, on balance, shown comparatively little diminution. For many years this low-rated traffic, of which local farm produce, especially for export, forms an important part, has been carried on the back of the high-rated traffic. At the same time the maintenance of "political" branch lines and the expensive policy of substituting white for native unskilled labourers, have added considerably to the overhead costs. Now that the heavy fall in imports has diminished the quantity of high-rated traffic available, as the motor-lorry, for short hauls, is offering a way of escape from the monopoly of the railways, Mr. Malan's position is not to be envied.

During the coming year, however, he hopes to obtain a total revenue of £29,012,000, which indicates that he looks forward to an improvement in the general economic position. Expenditure on the present basis he hopes to reduce to £29,302,000, partly by administrative economies and by again suspending the usual contribution of £250,000 in reduction of interest-bearing capital, and partly by cutting down the contribution from revenue to the Betterment Fund from £350,000 to £250,000. This would give him a deficit on the year of £290,000 and a total deficit of £985,000 by March, 1932.

South Africa

To meet this deficit, Mr. Malan has decided not to raise rates, apart from minor increases in passengers' excursion and concession fares including the special fares for natives. Presumably he dare not make the high goods rates still higher for fear of motor competition, while to raise the low goods rates with prices at their present level would be politically highly inexpedient. In fact the only material alteration to be made in goods rates is apparently to be a *reduction* in the rate on export sugar, whereby, presumably, the railways will bear part of the cost of dumping nearly half the sugar crop abroad at prices representing only a fraction of the fixed local price. Instead of raising rates, Mr. Malan has decided to deal with his deficit by altering the minor emoluments and working conditions of his employees. The steps taken include reductions in local cost-of-living allowances, overtime rates, and piece-work bonus rates, and an increase of half an hour a day in the working hours of the office staffs. By these measures he hopes to save about £500,000 a year, which would reduce the deficit to be carried forward to 1932-33 to about £485,000.

The reductions in pay have not been well received by the employees, and there has been some talk of a strike. This is improbable, but there is no doubt that the Government will lose a considerable number of railway votes at the next election. Their number will, however, probably be fewer than the votes which would have been lost either by higher rates on farm produce, or by a reversal of the "white labour" policy, and from their own political point of view it is probable that the Government have chosen the least of the evils which confronted them.

The Japanese Agreement

III. THE JAPANESE AGREEMENT

FOLLOWING the lead of other countries which have attempted by their immigration laws to exclude the peoples of Asia, the Union has now concluded what is known as a Gentleman's Agreement with Japan.

The Immigrants Regulation Act of 1913, which is the main statute in force regulating immigration, does not in express terms deal with Asiatics. It was passed after a prolonged controversy with the Indian population here—led by Mr. Gandhi—whose cause was to some extent supported by the Imperial Government, acting on behalf of the Government of India. In the end the right of the Union Government to exclude Asiatic immigration was conceded, but on the understanding that, while the measure might be framed so as effectively to exclude Asiatics, they should not be specifically excluded by name. This was given effect to by providing in the Act that any person or class of persons might be deemed by the Minister of the Interior, on economic grounds or on account of standard or habits of life, to be unsuited to the requirements of the Union or of any province of the Union, and should therefore be prohibited immigrants. On the taking effect of the Act the Minister made an order decreeing all persons of Asiatic race to be prohibited immigrants under the provision described above.

This decree has been in force ever since, but it has from time to time been relaxed, in favour of particular individuals visiting South Africa on official business, or for other temporary purposes. It has not, of course, been enforced against consular officers or their staffs. In 1915, while the war was in progress, and when, as will be remembered, the Japanese navy was providing convoys for merchant ships from South African ports, an arrangement was made by the then South African Government for the issue of

South Africa

temporary permits to a limited number of Japanese immigrants. This was done under a provision of the law enabling the Minister to grant a temporary permit to any prohibited immigrant to enter and reside in the Union. The Government decided to give temporary permits to Japanese subjects recommended by the Japanese consul, and approved by the Minister, enabling them to enter and reside in the Union. The permits were to be valid for periods of one year at a time, but not exceeding five years in all. The matter was apparently raised again in 1921 and the Government then in power revised the previous arrangement. No material alteration was made except that the total period of residence was limited to three years. The number of immigrants to be allowed was restricted to thirty in any year, and it was understood that the majority of the entrants would be educated persons such as merchants, travellers, students, etc.

The concession had comparatively little effect, and from 1915 to 1929 inclusive the number of Japanese entrants on this temporary permit was under 100 in all. It should be noted also that the entrants under temporary permit remained, in the eyes of the law, prohibited immigrants, and were therefore incapable, under section 8 of the Act, of obtaining a licence to carry on any trade or calling, or to acquire any interest in land.

The arrangements described above were given effect to by instructions from the permanent head of the Department of the Interior to his immigration officers, and were not embodied in any interchange of notes or correspondence between the two Governments.

The new agreement is embodied in an exchange of notes between the Union Government, through its department of External Affairs, and the Japanese Consul in the Union. The object of the agreement is stated to be the temporary admission of Japanese students, tourists and merchants to the Union. The Japanese Government undertakes to refuse to issue passports to the Union to its subjects, except those

The Japanese Agreement

who are recommended by it through its Consul for admission under the agreement. The Union Government will not serve any Japanese entrant, coming with such recommendation, with notice as a prohibited immigrant under the Immigrants Regulation Act, and he will receive a temporary permit to enter the Union on such conditions as may be prescribed. Why a permit should be necessary for persons who are not declared to be prohibited immigrants is not very clear. The Japanese Consul is to confine his recommendation to persons of the following classes :—

(1) Tourists ; (2) persons visiting the Union solely for the purpose of study or scientific investigation ; (3) wholesale merchants and buyers of South African produce for export and their staffs ; it is understood that the number of persons recommended under this class will be restricted to a reasonable limit ; (4) the wives and children of persons admitted under the preceding heads.

The permits issued are to be for one year, renewable from time to time on the recommendation of the Japanese Consul for a further period or periods each not exceeding one year. They are not to be regarded as entitling the holder to reside in the province of the Orange Free State or to settle in that province for the purpose of trading or farming. This restriction—which applied also to the permits granted under the previous arrangement—is imposed in compliance with a law of the Orange Free State, passed before the annexation of 1900 and still in force, forbidding the entrance or residence of Asiatics.

The new agreement goes beyond the pre-existing arrangement in three respects :—first, in that the persons concerned are admitted solely on the recommendation of the Japanese Consul and the approval of the Minister is not required ; secondly, in that there is no limit of time imposed on the residence of any particular entrant but his permit is renewable indefinitely from year to year ; thirdly, in that the entrant on admission is not a prohibited immigrant, and therefore is not debarred by law from obtaining a trading

South Africa

licence. The Japanese Government undertakes in the case of any person admitted under the agreement who may fail to comply with the conditions of his permit to arrange for his maintenance and removal from the Union on the request of the Union Government. Finally, the agreement is not to be construed so as to derogate from the right of the Union to administer and carry into effect the Immigrants Regulation Act of 1913, the Quota Act of 1930 by which immigration of persons born in certain countries is restricted to a certain quota, or any amendment of those measures, and is to be subject to review at any time on two months' notice.

The agreement was the subject of a prolonged debate in the House of Assembly. It was not submitted to Parliament for approval, but was debated in connection with a Bill which was before the House amending in certain respects the Immigrants Regulation Act. The opposition to the agreement was based mainly on the apprehension that the door was being opened to the influx of Japanese merchants, who would be enabled to come here with their staffs, and open places of business, and that, although nominally they were only admitted on a permit renewable from year to year, it would in practice be impossible without some very grave reason to withdraw such a permit in the case of a merchant who had once established himself here. The Government, however, stood by the agreement, and time will show how far the attacks of its critics were justified. At present the number of Japanese residents in the Union, apart from consular officials, is negligible, and if an agreement such as this can remove obstacles to a friendly understanding with the Japanese Government without opening the door to an undesirable inflow of Japanese immigration, it will be justified.

South Africa.

April 1931.

NEW ZEALAND

I. THE OUTLOOK

THE year 1930 closed for New Zealand with an outlook anything but bright. While Mr. Forbes and Sir Thomas Sidey were on their way back from the Imperial Conference, the financial departments could clearly see that the financial year was going to close very unfavourably for the country. Exports up to December 31 were valued at £44,940,692, as compared with £55,579,063 for the corresponding nine months of the preceding year, and imports were valued at £43,025,914, as compared with £48,797,977. External trade, import and export, therefore showed a decline of £16,410,434, reaching the lowest figure since 1922, when the total was only £77,738,810. Other statistics also reflected the depression, unemployment, which at this season usually tends to diminish, showing no signs of a decline. The sudden suspension of part of the programme of railway construction indeed told in the other direction. On December 22, Mr. Ransom, acting Prime Minister, announced that work had been stopped on four lines, two of them in north Auckland, one in Taranaki and the fourth on the east coast between Gisborne and Waikokopu, upon which the Ward Government had only commenced work in March 1929. Over £3 million had been spent on these lines, and the suspension threw 1,699 men out of work on the eve of Christmas. For the time being there is no reversal of the much criticised

New Zealand

decision to proceed with work on the large gaps in the South Island Main Trunk railway which break the connection between Christchurch and Picton.

About this time the Cabinet, as a further step in the direction of economy, appointed a special committee, composed of its own members and leading civil servants, to make a drastic overhaul of departmental expenditure. It was already assumed in some quarters that there would be a cut in civil servants' salaries, and there was a general feeling that wages which are subject to the award of the Arbitration Court would also have to be reviewed. To people of this way of thinking it came as a shock when the Court at Auckland, on December 18, actually advanced the pay of certain classes of electrical workers from 2s. 2d. to 2s. 2½d. an hour, the award to run for two years. Mr. Justice Frazer, the President, explained that a majority of the Court (of three) considered that they were bound by an award made in Dunedin in 1929, "that, having fixed a standard wage, the Court must apply that standard until it decided to alter it." The representative of the employers dissented on the ground that "the Court should take into consideration more fully the economic condition of the country and act in accordance with the exigencies of the moment, rather than be guided by what might have been done by a small minority of employers more than a year ago when general conditions were vastly different." *

These early efforts of the Government to reduce expenditure naturally resulted in a game of "pull devil pull baker." Labour organisations contended that throwing hundreds of men out of work by stopping railway construction was only adding to unemployment without improving general conditions. At the same time, a deputation from the east coast urged the continuation of its particular railway from the point of view of local interests. In his reply Mr. Ransom spoke quite plainly :

* *New Zealand Herald*, December 19, 1930.

The Outlook

It was (he said) the intention of the Government to review the whole of the transport system in order to prevent wasteful overlapping ; and it had been considered that the only way to get a proper perspective of the position was to suspend the construction of non-paying lines. A loss of £1,250,000 on the railways justified the Government in calling a halt until it came to some decision in regard to road and rail transport. . . . The decision was purely economic.*

Probably 90 per cent. of the farmers at a wool sale in town that very day, the acting Prime Minister shrewdly suggested, had travelled by car, and perhaps 50 per cent. of them had sent their wool by road. Mr. Coates, the Leader of the Opposition, cordially approved of the suspension of railway construction, only objecting to it in the case of lines which were nearly completed.

It was, then, in every way a gloomy prospect which faced Mr. Forbes on his return from the Imperial Conference. He had a cordial reception on landing at Wellington on January 20—people were plainly glad to see him back. Speaking of the Conference, he said that, although the proposed constitutional changes probably seemed greater than they actually were, they represented a momentous step forward, the wisdom of which time alone could prove. But though his language was diplomatic, it was clear to those who read between the lines that Mr. Forbes himself was disappointed at the absence of material results. He recognised, however, that the fiscal policy to which the British Government were committed made it unlikely that they could accept any such solution as the Dominions had proposed, though it was his own view that the increase in the volume of inter-Imperial trade necessary for the future economic welfare of the Empire could best be effected by a system of mutual preferences.

Ceremonies over, the Prime Minister turned to the formidable tasks awaiting his attention—financial stringency, unemployment and the rising tide of distress. As already intimated, his return was viewed with a distinct

* *Evening Post*, January 8, 1931.

New Zealand

feeling of relief. As Mr. Forbes had himself discovered, stop-gap administration is unfair, both to acting Ministers and to the country. Mr. Ransom acquitted himself creditably in a time of increasing difficulty, and is well liked, but no acting Prime Minister could, under such conditions, enjoy an authority commensurate with his responsibilities. It was, then, no dissatisfaction with him personally that prompted the public to hail the return of the real Prime Minister to the helm, and they willingly dispensed with Mr. Forbes' attendance at the usual host of receptions so that his whole energies might be reserved for the pressing domestic problems of the Dominion.

Nor did the different sections of the community permit him to remain in ignorance of their wishes and troubles. Deputation after deputation waited upon him to ask or to give advice, and he was able to develop his policy with full knowledge of the views of those who were most affected by the depression. As regards unemployment, he lost no time in making it clear that he would set his face against the "dole," unless work were done for it. "No payment will be made in this country so long as I am Prime Minister unless they work when there is work to give them," were his words. And again a few days later, in answer to a deputation from the Alliance of Labour anxious to prevent the standard of wages from being lowered, he said :

New Zealand was up against the greatest crisis in its history. He wanted it to pull through with the minimum of hardship, but he felt that anyone who thought that the present high scale of wages could continue while £20,000,000 less was coming into the country through the drop in prices was living in a fool's paradise. Is it not a question of the reduction of wages or the reduction of staffs ? If you have not the money, how can you pay it ?

The next day a deputation which claimed to represent 90 per cent. of the farmers of the Dominion (through the New Zealand Meat Producers Board and the Dairy Control Board) put before the Prime Minister a written statement

The Outlook

of what they considered necessary. The farmers, according to the Canterbury Chamber of Commerce, are paying over £10 million a year in interest on mortgages, but the deputation denied that the high price paid for his land constituted the farmer's main problem. They expected a considerable rise in the price of wool. About other produce, however, they were not hopeful, and insisted that wages and salaries must be brought down. They pointed out that the payment of 14s. a day on relief works created an impossible position for the farmer, who could not compete with such a rate. They suggested, moreover, lowering the rate of wages in industries regulated by the Arbitration Court.

In such a time as this (their statement ran) the artificial restriction that has been built around industry should be removed and a large number of men could be employed profitably at wages that could be agreed upon between employer and worker. Many men are being dismissed from industry to-day who would be glad to remain in their present positions, only that the law refuses them the right. They also demanded a general reduction in the rate of interest, and the stoppage of all public works which do not promise an adequate return. The attack on wages was, a day or two later, carried a stage further by the Dominion Executive of the Farmers' Union, which protested against the 14s. a day paid on relief works, their idea of a proper rate being 12s. for married and 9s. for single men. On February 3 again a deputation from the Associated Chambers of Commerce, the New Zealand Farmers' Union, the Employers' Federation and kindred organisations placed before the Prime Minister a programme which comprised the reduction of civil service salaries, wage cuts, the removal of the railways from political control, the stoppage of railway construction and other reforms. They hoped to arrange a comprehensive conference to consider the question of the reduction of costs. Mr. Forbes' reply was that it would require the whole-hearted assistance of everyone, and particularly of the employers, if they were to mitigate existing hardships.

New Zealand

"If we are not able to maintain a balanced budget," he said, "we will have to admit to the world that we have failed and are not prepared to face the effects. We have all got to pull together. These are extraordinary times, and we have to take extraordinary measures." It was clear at all events that the special session of Parliament suggested in the middle of last year, but never definitely decided upon, would have to be held. The difficulties were such that any government would wish to share its responsibilities with Parliament.

Almost at the very moment when the Prime Minister was giving the reply quoted above, a tragic event took place. An earthquake of unprecedented violence visited the province of Hawkes Bay, about 200 miles from Wellington. In a few hours the news trickled through that a disaster of the first magnitude had occurred. Two flourishing towns in Hawkes Bay, the capital city of Napier with a population of 16,160, and the commercial centre of Hastings with a population of 11,260, twelve miles distant, had their business quarters shattered by the earthquake, or to a large extent gutted by fire, while practically every house in an area stretching as far north as Wairoa, 42 miles away, and as far south as Waipawa, a distance of 35 miles, was more or less damaged, and more than 250 lives were lost. The material loss has not yet been assessed, but it will undoubtedly amount to millions.* The position is the more serious as very few owners were insured against damage by earthquake.

Within a few hours four members of the Cabinet started for the scene, and every nerve was strained to expedite relief. Owing to the failure of the sanitary services many of the inhabitants of Napier had to be evacuated to other districts where they received the warmest sympathy and the most generous treatment. The behaviour of the

* According to the Minister of Public Works the approximate estimates of losses through the earthquake were: To the Government, £580,000; to local bodies, £500,000; and to private persons and businesses, £2,200,000. *The Times*, April 28.

The New Economic Policy of Mr. Forbes
people of Hawkes Bay was in every respect admirable, and a special debt of gratitude is due to the captain, officers and crew of H.M.S. *Veronica*, which arrived at Napier on the morning of the disaster. With a promptitude characteristic of the Navy, Captain Morgan landed his men, and himself took control of the rescue work at a time when the inhabitants themselves were stunned by the first shock and distracted with anxiety about the fate of their relatives. The Prime Minister had naturally to postpone his statement of policy, and on February 9 he paid a visit to Hawkes Bay to see things for himself. Needless to say, this disaster, which was at once recognised as a national calamity, has to some extent affected the public perspective and is bound to have a profound influence on the session of Parliament which has just commenced. To economic difficulties, already grave, there has been added a new problem unprecedented in extent, and of a completely novel character, which demands immediate attention. The rehabilitation of the devastated area cannot proceed without parliamentary sanctions of a far-reaching character.

On his return from Hawkes Bay, the Prime Minister was again approached by various interests anxious to make use of the respite before the delivery of his statement of policy. Among others, a deputation from the Wellington Trades and Labour Council on February 12 protested that if power were given to the Arbitration Court to reduce wages all round "it would amount to a breach of contract with the workers, and would be as bad as, if not worse than, a repudiation of the national debt."

II. THE NEW ECONOMIC POLICY OF MR. FORBES

AT last, on February 14, the statement of policy was published. It made no attempt to gloss over the position. Mr. Forbes took the public fully into his confidence. In the coming financial year, he said, they had to provide against an ostensible shortage of £4,500,000.

New Zealand

For the first nine months of the current financial year there was a shortage of £1,469,936, principally due to a decrease of £1,220,000 in railway revenue and of £713,000 in customs receipts. Some of the shortage had been foreseen, but there had since occurred a sudden and unprecedented fall in prices, involving a drop in the national income of many millions. Close budgeting under such conditions was almost impossible. Despite all efforts, the deficit would, it was estimated, reach three-quarters of a million, without taking into account expenditure in connection with the earthquake. The value of our exports for the financial year would show a fall of 20 per cent. Prices appeared to have reached bottom, but there was no indication that there would be any marked recovery, and with our income down by many millions, and every sign of its continuing at a low level, our whole economic structure would have to be adapted to that level. The Government proposed to deal with the situation in a comprehensive manner, but it was essential that there should be unity of action, and the Prime Minister appealed to local authorities, public institutions and private firms to follow the Government's lead and speed up the process of readjustment. During the coming year it was expected that there would be a fall of £2 million in the customs revenue, of £500,000 in income tax, of £500,000 in railway revenue, of £300,000 in stamp duties, and of £300,000 under other heads; there would also be £200,000 of additional debt charges, and £600,000 to find for subsidies in connection with unemployment. Altogether these calls would amount to £4,500,000.

1

Drastic measures and considerable sacrifices on the part of the people are (Mr. Forbes insisted) necessary before the gap can be bridged . . . Knowing the spirit of our people, I have not the slightest doubt that the general desire is that the burden should be shared by one and all, and the Government will do its utmost to arrange matters to this end . . . Nominal amounts of salaries and wages must be reduced. Accordingly the Government proposes to make a 10 per cent. reduction in the salaries and wages

The New Economic Policy of Mr. Forbes

of the public services . . . The wages on standard public works will be reduced to a basis of 12s. 6d. per day, except for tunnellers, where the rate will be on a basis of 16s. per day. On relief works the rates of wages will be on a basis of 12s. 6d. per day for married men and 9s. per day for single men. A reduction in the salaries and wages of the public service alone, however, apart altogether from the question of equity, would not achieve the larger object in view, that is the general lowering of costs throughout the Dominion . . . In regard to awards under the control of the Arbitration Court, it is proposed to bring down legislation to empower the Court to review them in the light of the present economic conditions . . . A reduction in nominal wages, followed immediately by a further reduction in the cost of living, would leave the standard of real wages but little affected, and I can assure the workers that the Government is most anxious that the standard of living should not be lowered. At the same time, the Government is convinced that under the present economic conditions it is in the real interests of the workers themselves that nominal wages should be reduced, as otherwise business generally will stagnate and there will be little work for anybody.

Mr. Forbes indicated that the cost of education, now £4,500,000 a year, was too heavy a burden under existing conditions. As a temporary relief, the reparations money from Germany—hitherto devoted to the reduction of war debt—would be made available for the consolidated fund. Highway finance, moreover, could no longer be kept separate; it was quite unsound to earmark certain taxes for special purposes. The following figures show the way in which the budget would be balanced:—

	£
Reductions in salaries and wages	1,500,000
Reductions in other expenditure and financial adjustments	1,250,000
Increase in postage rates	900,000
Additional taxation (direct and indirect) ..	850,000
	<hr/>
	4,500,000

The Government (continued the Prime Minister) gives balancing the budget a paramount position in its policy, and, while there may be a diversity of opinion as to how it should be done, I feel

New Zealand

sure that the principle, at any rate, is heartily endorsed by every section of the community.

As to the railways, the Government has decided to give effect to one of the main recommendations of the Royal Commission of Inquiry and place this national transport system under the control of a non-political board of directors . . . The Government is much concerned about the position of the farmers, who have been placed in a serious financial position as a result of the sudden unprecedented fall in the prices of primary products . . . Many who bought land when prices were higher have now lost part or the whole of their equity . . . In other cases the farmer has suffered a serious hardship in losing, through no fault of his own, the hard-won savings of a lifetime. If the mortgagor of land . . . is a good farmer doing his best, the mortgagee cannot hope to gain anything by driving him off the land. Accordingly, I make an earnest appeal to mortgagees to review all the circumstances in an equitable spirit, and recognise their losses by easing the mortgage charges or otherwise granting every relief possible. This appeal also extends to stock and station agents, the banks and others who have lent money . . . The State lending institutions . . . will take this line of action, and will deal with each case on its merits in as sympathetic a manner as is practicable . . . It is highly desirable that all parties concerned in each case should get together and make an equitable arrangement without outside assistance or interference, but . . . in order to assist parties to come to an agreement, it is proposed to set up adjustment commissions in various parts of the country.

As regards the demand for relief from rates, Mr. Forbes pointed out that rates collected by county councils, road boards and other rural local authorities amounted to £2,240,000 annually, and those (mostly rural) collected by power boards to £70,000 and by smaller harbour boards to £100,000. Apart from power boards and harbour boards, there were 299 rural local authorities in New Zealand, i.e., 146 road authorities, 107 river and drainage boards and 46 rabbit boards. Their administrative expenses amounted to £330,000, or 11 per cent. of their total revenue. So many local authorities were no longer necessary, and the Government proposed to set up a commission to consider the matter.

I consider (remarked Mr. Forbes) that the first step toward overcoming our difficulties is to place the position fairly and squarely

The New Economic Policy of Mr. Forbes

before the people, for the record of the past shows that, when work and sacrifice are absolutely necessary in the interests of the national welfare, our people have always risen to the occasion . . . Our difficulties are great, and they have recently been considerably accentuated by a disastrous earthquake, but even so, the courage and resource of New Zealanders is such that they are by no means insurmountable. I confidently appeal to the other political parties and to the whole community for support and co-operation.

On the whole, the Prime Minister's statement had a most favourable reception from the press, even newspapers hitherto opposed to the United party Government not sparing their praise. The first adverse reaction was a vigorous denunciation by Mr. Holland, the leader of the Labour party, who the very day of its issue stigmatised the statement as an unconditional surrender to the Reform party on practically everything except the South Island Main Trunk railway. He especially condemned the proposal to saddle public servants and other workers with the heaviest sacrifices. A far more equitable method would, he claimed, be a supertax on all incomes over £500. Even if wage reductions were admitted, it was a lopsided policy to levy a flat rate of 10 per cent. on all incomes irrespective of their size. The wage earner and the farmer would be equally hard hit, and there was no proposal to bring down the price of clothes, rents and foodstuffs. It was absurd to talk about handing the railways over to non-political control; that simply meant private control, which was not in the public interest. The credit of the Dominion should be mobilised as it was during the war, when £55,000,000 was raised by compelling people of means to subscribe. It was hardly necessary to proclaim Labour's intention to fight wage reductions. Everyone knew that Mr. Forbes' announcement would bring the association of the parliamentary Labour party with the Government—the co-operation which had enabled Sir Joseph Ward and himself to carry on for the last two sessions—to an end.

Speaking for a deputation from the Alliance of Labour

New Zealand

on February 20, Mr. Roberts asserted that the workers believed that they were being victimised by the financial institutions, a suggestion which Mr. Forbes indignantly denied.

"When one's income is cut in half" he replied, "the first thing one has to do is to reduce expenditure. I believe that wages will fall, and if they do the workers will not lose. High wages cause unemployment." Mr. Roberts intervened to say that wages had nothing to do with it. That was a fallacy. It was machinery that was causing unemployment. Mr. Forbes said the income of the country was £20,000,000 less. Could anyone tell him how they could carry on at the old level?

Mr. Roberts : "Ask Great Britain for the same concessions in the matter of the war debt as have been given to France and Italy."

Mr. Forbes : "The English money lender is lending all the money for our public works. We have to show him that the country is being run in a business way. If it is not, who will lend any money?" *

The language used by Mr. Cook, the general secretary of the New Zealand Workers' Union, on March 3, suggested that Labour might adopt other than political methods to oppose the reduction. Labour's sincerity in defending the standard of wages fixed by the Arbitration Court cannot be denied, but it is not easy to see how their leading men can blind themselves to the fact that, with thousands out of work, the wages of the working class are, by that very fact, reduced, even though individuals who happen to be employed are getting the full rates provided by the Court.

There has since been a good deal of wage reduction in industries not subject to the Arbitration Court, and business firms which hitherto had rationed employment amongst their hands or given them alternate periods of holiday without pay have now frankly reduced wages.

Interests affected waited upon the Government after the issue of their statement, a civil service deputation on February 18 protesting that "an unfair and intolerable share of the burden was being cast upon State employees who, though numbering only one-ninth of the wage and

* *The New Zealand Worker*, February 25, 1931.

The New Economic Policy of Mr. Forbes

salary workers of the Dominion, were called upon to furnish one-third of the ostensible deficit besides paying their full share of the £850,000 that it was proposed to raise by taxation, direct and indirect." On the other hand, the Employers Federation commended the wage cut by general order as the fairest method, one which would be acceptable "as a temporary expedient" to all employers.

Almost simultaneously it was announced that His Excellency the Governor-General was prepared to have his own salary and allowances reduced in the same proportion as those of the public service, an intimation which was at once challenged by Mr. Fraser, a Labour member, as a departure from the established rule under which governors "abstain from participating by word or deed, in any way, even inferentially, in public controversies on social and industrial questions on which there is a strong difference of opinion."

On February 26 Mr. Donald, the Postmaster-General, announced a rather drastic revision of charges, devised to make good his deficit of £900,000. The main features of these changes are: The inland letter rate is raised from 1d. to 2d. and the cost of telegrams (12 words) increased from 9d. to 1s. The maximum number of words which could be wired at the existing press rates was reduced; newspaper postage is to be according to weight, with a minimum of 1d. a paper, instead of at the present very low rate of $\frac{1}{2}$ d. a copy irrespective of weight. The letter rate is now the same as in Australia, and restores the scale which existed before Sir Joseph Ward's introduction of penny postage in 1901. (It was raised during the war to 1 $\frac{1}{2}$ d., but afterwards reduced to 1d.)

Mr. Forbes' proposals to assist farming are interesting, because he is a farmer himself. The mortgage difficulty is to be met by the boards already mentioned. The Government has, for the time being, avoided anything so drastic as derating farm lands, as in Great Britain; the cost of local government clearly shows that it is too large a question

New Zealand

to be summarily disposed of, especially at a time when it is proposed to change horses in the middle of such a very turbulent stream.

Liberal papers have drawn attention—and Conservative papers have supported them—to the grave injustice inflicted upon the people of New Zealand generally by the high price at which flour-bread and fowl-wheat have been maintained by the excessively high duty devised for the benefit of the Canterbury farmers. With a view to making the Dominion self-supporting in the event of war, the Reform Government in 1922 obtained authority to impose a duty on a sliding scale. When the price of wheat in Sydney is 2s. 3d., as it was a few days ago, the duty in New Zealand, under the arrangement adopted, would be 4s. 6d., or 200 per cent., plus insurance and freight. In these hard times it was obvious that the public would sooner or later resent such a privilege. The *Dominion*, itself a staunch supporter of the Government which devised this ingenious tax, remarked on February 23 :—

The price of wheat and bread in New Zealand has become a public scandal. Were such imposts placed upon a luxury there might be some justification, but the item singled out of all our tariff for this punishing treatment is the raw material of our daily bread. . . . When everyone else is suffering a severe cut in income, a specially privileged and sheltered position cannot be retained by the owners of wheat lands.

On February 21, Mr. Forbes indicated that “there would have to be some reduction not only in the price of wheat, but in the milling and baking industry.” He added, however, that anything that was done would not affect the 1931 crop.

III. THE EMERGENCY SESSION

PARLIAMENT was duly opened on March 11 by the Governor-General. His speech made it clear that the session was an emergency one, which would deal only with

The Emergency Session

emergency business. Labour at once gave notice of a motion of no-confidence in an amendment to the address in reply, and speaking at a crowded public meeting the same evening their leader stated that they intended to fight the reduction of wages "on the floor of the House, and to carry the fight on to the electoral field at the general election." The tenor of its decision is indicated by the following quotation from the official report of a conference of the Alliance of Labour which was being held in Wellington at the time :—

The conference decided unanimously to oppose the wage cuts, and a central committee was appointed to advise and instruct the trade unionists throughout the Dominion on the action to be taken. The committee has been instructed to commence an organising campaign amongst the employed and unemployed workers throughout the Dominion with a view of preparing for widespread and effective industrial action. The Secretary of the New Zealand Alliance of Labour has been requested to communicate the decisions of this conference to the Labour movement of Australia and the Labour movements of Great Britain and European countries, particularly to the international Transport Workers Federation. The conference was of the opinion that the main cause of the proposal to reduce wages was international, inasmuch as we believe it to be a direct instruction from the bond holders and money lenders overseas. For that reason the Labour movement of New Zealand considers it will be necessary to obtain the co-operation of the international labour movement to fight the proposal effectively.

When the debate opened in Parliament on the following day, Mr. Coates made it clear that the Reform party intended to assist rather than hinder the Government,* a departure from its traditional course due to the gravity of the problems ahead. He also made another appeal for the derating of farm lands.

Twitted with having kept the Government in office for two years, Mr. Holland said that Labour "had pledged

* The Reform party has declined an invitation from Mr. Forbes to join the United party in forming a new national party, but it has promised to do nothing to block the necessary legislation and to form a small committee to discuss such legislation.

New Zealand

that wages would not be reduced, whereas they had the assurance of the Reform party that they would be reduced if the opportunity occurred." Labour members strongly resisted the proposed reduction of salaries of a special class in the public service, and they were supported in the Legislative Council on March 18 by Sir Francis Bell, a most influential member of the old Reform Cabinet, but now, as he declares, a non-party member of the Legislative Council. In the House Mr. Ransom, the Minister of Lands, pointed out that necessity knows no law. The suggested graduated scales, to alleviate the loss to the lower grades of the service, simply would not produce the amount required; and the Prime Minister, who had also, he said, felt the unfairness of asking the civil service to make the sacrifice alone, added that he was hopeful that falling prices would neutralise its consequences for them, quoting the following figures from the government statistician to demonstrate that the increase in prices as compared with 1914 had fallen considerably in the last few years:—

Per Cent. Increase.					
	Food Groups.	All Groups.		Food Groups.	All Groups.
1921 ..	.. 75·1	85·5	1930 ..	.. 45	59·2
1922 ..	.. 44·8	65	1931 ..	.. 29·7	50·4
1929 ..	.. 47·9	61·2			

The first Labour amendment was lost by 50 votes to 20, "Reform" voting solidly with "United" against Labour. Thereupon a Labour member moved a fresh amendment condemning the assault on civil service salaries. Again Reform and United refrained from taking part in the debate and the division went for the Government by 45 to 22. The Labour party then moved an astutely worded amendment demanding special consideration for farmers unable to meet their responsibilities under mortgages. Even this did not deter Reform members from supporting

The Emergency Session

the Government, and Labour, after maintaining the debate single-handed, was defeated by 40 votes to 22. The fourth and last Labour amendment asserted that the power which it was proposed to give the Arbitration Court to vary awards would "lay the foundation for the repudiation of agreements." Its supporters insisted that if awards could be varied "any agreements could be broken by Parliament." Once more the amendment was defeated by 37 votes to 20. Labour's chagrin at the abstention of the other parties from the debate was evident, but with only twenty members to draw upon, they could not hope to gain their end by "stone-walling," and for the moment they had to admit defeat.

The ground clear, the Finance Bill was introduced, and after a further demonstration by Labour, and two divisions, it was read a first time. It embodies the more important points of the Government's policy. The 10 per cent. cut in civil service salaries began with the Prime Minister and the High Commissioner and included Members of Parliament and magistrates, but not the judges. The Governor-General is specifically exempted. Grants to educational authorities for salaries are also reducible. Power is given to the Arbitration Court to amend wage rates at intervals of not less than six months. The Court is to "take into account the economic and financial conditions affecting trade and industry in New Zealand and all other considerations which it deems relevant, and may by general order make such reduction or increase in the rates of remuneration payable under the provisions of any award or industrial agreement as it thinks just and equitable." The Act will come into operation on April 1, and will continue in force until the end of 1932.

After the introduction of this Bill, the Prime Minister pointed out that since his declaration of policy a month ago the budgetary position had changed for the worse, and that, notwithstanding every effort to increase revenue and curtail expenditure, it seemed likely that the financial year

New Zealand

would close with a deficit of at least £1,250,000 and that next year's deficit would exceed £4,500,000.

On the following day Mr. Coates indicated that he would support the cut in public service salaries. Sir Apirana Ngata, Minister of Native Affairs and Chairman of the Cabinet Economy Committee, stated that retrenchment as well as salary cuts would probably be necessary in the civil service. In regard to naval defence, they were tied down by certain engagements with the British Admiralty. There was, for instance, an annual payment of £125,000 for the Singapore base, and a large sum for the upkeep of the New Zealand section of the Royal Navy. They would like to see the cost of those services reduced by 25 per cent., and it might be desirable to make representations to the British Government.

IV. UNEMPLOYMENT

THE unemployment outlook has become steadily worse. Although this is the period of the greatest seasonal activity in New Zealand, the number of men registered (29,941 on March 9, exclusive of the large number engaged on public works) is greater than at any other time in our history. Besides ordinary economic causes, the earthquake in Hawkes Bay has thrown men and women out of employment who cannot possibly be absorbed in reconstruction work, and the civil service, by taking no new cadets this year, is disappointing 500 or 600 young people who passed high in their entrance examinations. Undoubtedly a large part of the increase in registrations is due to the fact that some work is now available owing to the operations of the Unemployment Board, whereas previously only general labourers offered themselves, there being no work available for tradesmen.

The Unemployment Board, which has been wrestling with the problem for the last four months, was, for a while,

Unemployment

able, with the help of the local authorities and money from the unemployment fund, to reduce the number of idle men by special measures designed to tide them over the Christmas season. When it took office the total number of registered unemployed was 7,402. The first scheme, which lasted until December 18 and benefited probably 5,000 men, involved the State in an expenditure of £32,500, to which the local authorities added £16,000. Under the second scheme 121 local committees assisted in the administration with such success that the period was twice extended and about 10,000 men benefited to the extent of 95,000 working days. A special Christmas scheme, which cost £10,000, benefited 7,000 men. The biggest scheme of all was the allocation of £150,000 to local bodies to enable them to provide special work to be rationed according to the personal responsibilities of the workers, single men getting two days work per week, married men with dependents three days and more. This proposition, requiring the work to be all of it additional to the ordinary programme of the local authorities, met with a prompt response and has resulted in considerable alleviation. Over 22,000 were employed under this scheme last week. Two minor schemes have been devised to assist farmers to employ men in ordinary or development work, and finally a proposal was put forward by the Board to employ married men in prospecting for gold and thoroughly exploring localities in which it is known to exist.

As a result of these special Christmas efforts the number of registered unemployed fell from 11,371 on December 22 to 7,596 and 8,703 in the two following weeks; but the registers then began to expand rather alarmingly. On January 12 they showed 12,230 names, on January 19, 14,875 and on February 2, 17,556. Three weeks later the number had risen to about 27,000; but of these more than 10,000 had been provided with work by the Board, leaving a net balance of something over 16,000. It is still the policy of the Government, as enunciated towards the end

New Zealand

of January, to find work rather than to pay sustenance. It was the principle underlying the Act passed last session, and a valiant effort is being made to adhere to it. Preliminary arrangements for the granting of sustenance were made as early as December 23. The rules (under the Act) published on January 17, provided that

no person will be regarded as eligible to receive sustenance allowance if, in the opinion of the Board, his unemployment is due to a strike or lockout or other industrial dispute to which he is a party,

or if he refuses to accept work when offered. On January 29 the Board felt able to pass the following resolution that

as under the schemes now being brought forward and in operation the Board will be able to provide work for a large majority of unemployed, the arrangements made for the payment of sustenance be suspended in the meantime.

Whatever the actual number of unemployed at the moment, it is significant that the payment of sustenance, which was, if called for, to have commenced on February 21, has not yet been resorted to, and that the Prime Minister has reaffirmed his determination to give work in preference to it, with an invitation to his Labour critics to name any of their comrades who are starving. There are, he pointed out, more men on public works now than ever before in the history of the Dominion.

On January 19, the acting Prime Minister announced that the Government had acquired a private estate of 22,000 acres at Galatea, in the hinterland of the Bay of Plenty at a price of £4 10s. an acre. It was to be cut up for closer settlement, and 200 men set to work at once on the roads necessary to connect it with the seaboard. The scheme was greeted by the Liberal press as at once a constructive step in itself and a revival of the closer settlement policy of the old Ballance and Seddon governments, but it was almost as roundly condemned by the Reform press as a costly method of putting men on the land in a period of financial stringency.

Unemployment

Not to be outdone in constructive suggestions, Mr. Coates at Dargaville on February 25 outlined a scheme which, he contended, would at once absorb 4,000 unemployed and eventually 5,000, and enable people fitted for country life to establish themselves as settlers. The idea was to employ them in preparing Crown land now lying idle for settlement, including pumice and gum lands in Auckland province, estuaries in north Auckland which at present are only below water during extremely high tides; sand dunes, which should be planted with marram and lupin preparatory to being converted into pasture or forest lands; and mica schist lands in central Otago and elsewhere proved to be capable of improvement. The proposal is that the men should be housed in hutments and that their wives and families should receive regular allowances. To finance this scheme Mr. Coates suggests a levy on all persons over eighteen, payable in very small weekly instalments, which would yield £1 million.

A New Administrator for Samoa.

On February 27 it was announced that Colonel Allen, Administrator of Western Samoa for the last three years, had for domestic reasons asked to be relieved of his post, and that the Government had accepted his resignation. In making this announcement the Prime Minister said

The Government wishes to express its warm appreciation of Colonel Allen's administration of the Territory. The situation has been a most difficult one, calling for qualities of tact, discretion, firmness and understanding of a high order, and the great improvement that has happily taken place is sufficient indication of his success.

The new Administrator is Brigadier-General Hart, C.B., C.M.G., D.S.O., a barrister and solicitor in the Wairarapa district, who was born in 1882, served in the Boer war, and in the great war won great distinction and high rank, being the first member of the territorial force of

New Zealand

New Zealand to be promoted Brigadier. It was only to be expected that the appointment would be critically received by a press which has been unsparing in its comments on the policy of the Government in the Mandated Territory. While it is true that some papers have refrained from comment—possibly from a realisation of the serious nature of the problems involved—others object to the selection of yet another military officer. Conspicuous in the chorus was the voice of the *Christchurch Times*, a traditional supporter of the Liberal party :

It will (said this journal on February 28) be a disappointment to most people to find that the Government has not broken completely away from the military tradition. . . . We are convinced that New Zealanders generally have had enough of the military element in Samoan administration and would greatly have preferred the appointment of a civilian with proved administrative ability. We had hoped that the Government would make a complete break from the old order and would seek out a man who had had experience in handling native races, even borrowing an official from the Colonial Office for a term.

New Zealand.
March 21, 1931.

